



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR



KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 437
LOS ANGELES, CA 90012
TELEPHONE: (213) 974-2101 FAX: (213) 626-1812

MARK J. SALADINO
TREASURER AND TAX COLLECTOR

March 20, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**RESOLUTION AUTHORIZING THE ISSUANCE OF
COMMUNITY FACILITIES DISTRICT NUMBER 3
(VALENCIA/NEWHALL AREA)
IMPROVEMENT AREA C
SPECIAL TAX BONDS SERIES 2003A
(FIFTH DISTRICT) (3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD, ACTING AS THE LEGISLATIVE BODY
OF COMMUNITY FACILITIES DISTRICT NUMBER 3:**

Adopt the Resolution of the Board of Supervisors of the County of Los Angeles acting as the Legislative Body of Community Facilities District Number 3, authorizing the issuance of Improvement Area C Special Tax Bonds Series 2003A in an aggregate amount not to exceed \$9,000,000, approving documents and providing for other related matters.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

We are requesting approval of various legal documents, which provide for the issuance of up to \$9,000,000 of special tax bonds to finance or acquire certain previously authorized public improvements. These bonds were originally authorized on June 8, 1989, when your Board approved the formation of Community Facilities District Number 3 Improvement Area C following a landowner election.

The District was formed in June 1989 and bonds were issued that year for Improvement Areas A and B. Bonds were also issued in 1995, 2000 and 2001 for Improvement Area B; all are in good standing. Development of Improvement Areas A and B is

substantially complete and there will be no further bonds issued for those improvement areas.

In November 2000, the landowner requested a revision to the tentative tract map for Improvement Area C to reduce density from 936 to 833 residential units, increase the number of detached single-family residences, and add a school site, a park site, and other enhancements to the plan. Subsequent to approval by the Regional Planning Commission of the revised tract map in February 2001, the landowner requested that the rate and method of apportionment of special tax be revised to conform to rates established for Improvement Area B and to reduce the special tax rates for apartments in order to facilitate development of affordable housing in Area C. In consideration of the reduced special tax rates, the landowner also agreed to a reduction in the amount of authorized bonded indebtedness from \$15,000,000 to \$9,000,000.

In July 2002, following public hearings and an election of landowners in the area, your Board adopted a resolution ordering changes to the rate and method of apportionment of special taxes and reduced the amount of authorized bonded indebtedness to \$9,000,000. In August 2002, your Board adopted an ordinance authorizing the levy of special taxes in accordance with the amended and restated rate and method of apportionment of special taxes for Improvement Area C.

Construction of the public facilities in the Improvement Area C began in 2001 and completion is expected in 2003. Construction of residences is anticipated to be substantially complete by 2005.

Implementation of Strategic Plan Goals

This action supports the County's Strategic Plan Goal of Organizational Effectiveness through collaborative actions among County departments and other governmental jurisdictions. In addition, it supports the Strategic Plan Goal of Fiscal Responsibility by utilizing public-private partnerships for the investment in and development of regional benefit public infrastructure in the County.

FISCAL IMPACT/FINANCING

There is no fiscal impact on the General Fund. The bonds are not a debt of the County and are secured solely by the special tax levy.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Series 2003A bonds are authorized pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (beginning with Section 53311 et seq. of the Government Code) commencing with Section 53580 of Chapter 3, Part 1 of Division 2, Title 5 of the Government Code.

UBS PaineWebber was selected as underwriter for this transaction based on results of a modified bid from our approved pool of CFD senior underwriters. In accordance with Board policy regarding consultants for Community Facilities Districts, we have selected the firm of David Taussig & Associates as special tax consultant and the firm of Empire Economics as market absorption analyst. Public Works selected the firm of Brown, Chudleigh, Schuler & Associates as appraiser.

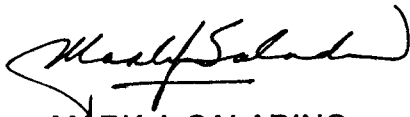
IMPACT ON CURRENT SERVICES (OR PROJECTS)

Not Applicable

CONCLUSION

Upon approval by your Board, the Department will require two certified copies of the minute order and Resolution.

Respectfully submitted,



MARK J. SALADINO
Treasurer and Tax Collector

MJS:DL:GB:pab

pb:Board:cf3c res of iss bd let iii

Attachments (4)

c: Chief Administrative Officer
Auditor-Controller
County Counsel

**COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C**

**RESOLUTION AUTHORIZING THE ISSUANCE OF A SERIES
OF SPECIAL TAX BONDS OF IMPROVEMENT AREA C OF
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA) OF THE COUNTY OF LOS
ANGELES, AND APPROVING DOCUMENTS AND PROVIDING
FOR OTHER MATTERS RELATING THERETO**

WHEREAS, following the adoption on April 25, 1989 of its Resolution of Intention and a duly called public hearing, the Board of Supervisors established the District and each of Improvement Areas A, B and C therein (each an "Improvement Area"), all pursuant to Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the California Government Code (the "Code"), known as the "Mello-Roos Community Facilities Act of 1982" (the "Act"), by its Resolution adopted on June 8, 1989, and, after an election duly held on June 9, 1989, adopted Ordinance No. 89-0107 on August 1, 1989 authorizing the levy of the special tax within each of the Improvement Areas of the District; and

WHEREAS, pursuant to a judgment entered in the case of County of Los Angeles v. All Persons, etc., et al. (Case No. C728049) in the Superior Court of the State of California in and for the County of Los Angeles on August 2, 1989, the issuance of bonds of the District to be paid by a special tax authorized under the Act, as amended, and collected within the Improvement Area with respect to which such bonds are issued, has been declared valid and consistent with Articles XIII A and XIII B of the Constitution of the State; and

WHEREAS, the District entered into a Funding and Acquisition Agreement effective as of June 27, 1989, as amended according to its terms by the Amended List of Primary Facilities in Exhibit B dated as of May 3, 1995 and a subsequent Amended List of Primary Facilities in Exhibit B dated as of March 12, 2001 (collectively, the "Acquisition Agreement") with Dale Poe Development Corporation, subsequently assigned effective October 17, 1996 to Stevenson Ranch Venture, LLC (the "Developer"), to provide for coordination between the District and the Developer with regard to the design, construction and acquisition of the Improvement Area C Facilities and specifically the financing of the Primary Facilities and the Residual Facilities (as such terms are defined in the Acquisition Agreement) as provided in the Acquisition Agreement; and

WHEREAS, in response to a petition of the sole landowner within Improvement Area C of the District, the Board of Supervisors adopted on May 21, 2002 a Resolution declaring its intention to change the Rate and Method of Apportionment of Special Tax for Improvement Area C and to reduce the maximum amount of bonded indebtedness authorized to finance Improvement Area C facilities and calling a public hearing to consider the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and all other matters set forth in said Resolution and provide for an election of qualified electors, being the landowner within Improvement Area C, to approve the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and the reduction in authorized bonded indebtedness, all as set forth in said Resolution; and

WHEREAS, a public hearing was duly held on June 25, 2002 at which fewer than fifty percent (50%) of the qualified electors protested the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and the reduction in authorized bonded indebtedness, and the Board of Supervisors called a special election on July 9, 2002, at which election there was submitted to the qualified voters of Improvement Area C a proposition to amend and restate the rate and method of apportionment of special tax as described in the "Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C" and to levy such special tax to pay for authorized facilities, including the payment of current and future principal of and interest on authorized bonded indebtedness and the annual administration expenses, and to reduce from \$15.0 million to \$9.0 million the maximum authorized bonded indebtedness that may be incurred to finance Improvement Area C facilities as further described in said proposition, such proposition being unanimously approved by the qualified electors of Improvement Area C; and

WHEREAS, following the election and receipt of a Certificate of the Results of the Election from the Registrar of the County of Los Angeles, the Board of Supervisors adopted on July 30, 2002 a resolution entitled "Resolution of the County of Los Angeles Acting as the Legislative Body of Community Facilities District No. 3 Determining the Results of a Special Election and Ordering Changes to the Rate and Method of Apportionment of Special Tax for Community Facilities District No. 3 Improvement Area C" and determined to levy a special tax on properties within Improvement Area C in accordance with the said Amended and Restated Rate and Method of Apportionment of Special Tax; and

WHEREAS, an Amended Notice of Special Tax Lien has been filed and recorded with the office of the Recorder of the County with regard to all parcels within Improvement Area C in the time and manner required by Section 53328.5 of the Code; and

WHEREAS, the Board of Supervisors has adopted on August 6, 2002, Ordinance No. 2002-0059, amending Ordinance No. 89-0107, authorizing the levy of a Special Tax in accordance with the Amended and Restated Rate and Method of Apportionment of Special Tax for Community Facilities District No. 3 Improvement Area C; and

WHEREAS, the District proposes to issue up to \$9,000,000 aggregate principal amount of Improvement Area C Special Tax Bonds, Series 2003A (the "Bonds") secured by a special tax levied within Improvement Area C to finance public improvements and facilities, including roadway, flood control and related improvements, and fees representing such improvements and facilities, as authorized in the proceedings (the "Project"); and

NOW, THEREFORE, THE BOARD OF SUPERVISORS ACTING AS THE LEGISLATIVE BODY OF THE DISTRICT HEREBY RESOLVES AS FOLLOWS:

Section 1. Definitions. For purposes of this Resolution, the following capitalized terms have the indicated meanings:

"Bond Counsel" means McFarlin & Anderson LLP in its capacity as bond counsel with respect to the Series 2003A Bonds.

"County Counsel" means the County Counsel of the County, or his deputy.

"Fiscal Year" means the twelve-month period ending on June 30 of each year, or any other annual accounting period hereafter selected and designated by the County as its Fiscal Year in accordance with applicable law.

"Officers of the County" means the Chair of the Board of Supervisors of the County, the Executive Officer-Clerk of the Board of Supervisors, the Treasurer and Tax Collector of the County, the Auditor-Controller of the County, or any designee of the listed officers.

"Special Tax" means, with respect to any parcel within Improvement Area C, the tax authorized to be levied in accordance with the proceedings of the District and an Ordinance of the County authorizing such levy.

"Special Tax Lien" means the lien established as to each parcel in Improvement Area C by recordation of the Notice of Special Tax Lien, as amended, pursuant to Section 53328.5 of the Code.

All capitalized terms not defined herein shall have the meaning assigned to them in the Indenture (as hereinafter defined).

Section 2. Issuance of Bonds. A series of bonds of Improvement Area C designated Series 2003A (the "Series 2003A Bonds") is hereby established and authorized to be issued provided that the maximum bonded indebtedness may not exceed \$9,000,000. The Series 2003A Bonds shall be issued upon the terms and conditions contained in the Indenture (hereinafter defined), which terms and conditions are by this reference incorporated herein.

Section 3. Manner of Sale of the Series 2003A Bonds. Pursuant to Section 53360.4 of the Code, the Board of Supervisors hereby finds and determines that a private sale of the Series 2003A Bonds would result in a lower overall cost to the District, and the Series 2003A Bonds shall be sold at private sale.

Section 4. Designation of Office to Administer Special Tax. Pursuant to Section 53340.2 of the Code, the Office of the Treasurer and Tax Collector of the County is hereby designated as the office that is responsible for annually preparing the current roll of Special Tax levy obligations and for estimating future Special Tax levies.

Section 5. Indenture. The proposed form of the Indenture, dated as of April 1, 2003 (the "Indenture"), pertaining to Improvement Area C to be entered into by the County on behalf of the District, presented to the Board of Supervisors at this meeting, is hereby approved. The Chair of the Board of Supervisors of the County, the Executive Officer-Clerk of the Board of Supervisors, the Treasurer and Tax Collector of the County, as paying agent, and the Auditor-Controller of the County, as fiscal agent, are, and each of them is, hereby authorized and directed, for and in the name of the District, to execute and deliver the Indenture in substantially said form, with such changes therein as County Counsel and Bond Counsel may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Indenture.

Section 6. Preliminary Official Statement; Official Statement. The form of the Preliminary Official Statement relating to Improvement Area C with respect to the Series 2003A Bonds (the "Preliminary Official Statement") is presented to the Board of Supervisors at this meeting, and the Underwriter's distribution thereof to prospective purchasers of the Bonds is

hereby approved. The Preliminary Official Statement, together with the addition of pricing and financial terms as are determined necessary by the Treasurer and Tax Collector of the County, for and in the name of the District, to make such Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), including, but not limited to, such additions and changes as are necessary to make the information therein accurate and not misleading, and to execute a Certificate (the "15c2-12 Certificate"), for and in the name of the District, to certify the same, are hereby authorized. The preparation of the final Official Statement (the "Official Statement") in the form of the Preliminary Official Statement, together with such changes as are determined necessary by the Treasurer and Tax Collector of the County to make the Official Statement complete and accurate as of its date, is hereby authorized. The Underwriter is further authorized to distribute the final Official Statement relating to the Bonds and any supplement thereto to the purchasers thereof upon its execution on behalf of the District as described above.

Section 7. Continuing Disclosure Undertaking. The proposed form of the Continuing Disclosure Undertaking, dated as of April 1, 2003 (the "Continuing Disclosure Undertaking"), pertaining to Improvement Area C to be entered into by the District, presented to the Board of Supervisors at this meeting, is hereby approved. The Treasurer and Tax Collector of the County is hereby authorized and directed, for and in the name of the District, to execute and deliver the Continuing Disclosure Undertaking in substantially said form, with such changes therein as County Counsel and Bond Counsel may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Continuing Disclosure Undertaking.

Section 8. Designation of Consultants. With respect to the Series 2003A Bonds and in accordance with the policy of the Board of Supervisors, the selection of David Taussig & Associates, Inc., as special tax consultant, Empire Economics, as market absorption analyst, and Brown, Chudleigh, Schuler, Donaldson & Associates, as appraiser, is hereby approved.

Section 9. Delegation of Authority. The Officers of the County and/or their designees are, and each of them hereby is, authorized and directed to do any and all things, and to execute and deliver any and all documents that said Officers of the County may deem necessary or advisable in order to consummate the issuance of the Series 2003A Bonds and otherwise carry out, give effect to and comply with the terms and intent of this Resolution, the Series 2003A Bonds, the Continuing Disclosure Undertaking, the Indenture, the Preliminary Official Statement, the Official Statement, the 15c2-12 Certificate and compliance with Rule 15c2-12.

Section 10. Severability. If any portion of this Resolution is declared illegal, invalid or unenforceable, then such portion or provisions shall be deemed to be severable from this Resolution. Such illegality, invalidity or unenforceability shall not affect the remainder hereof.

Section 11. Effective Date. This Resolution shall take effect immediately upon its adoption.

The foregoing resolution was on the ____ day of _____, 2003, adopted by the Board of Supervisors of the County of Los Angeles and ex-officio the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.

VIOLET VARONA-LUKENS, Executive Officer-
Clerk of the Board of Supervisors of the County
of Los Angeles

By _____

Deputy

APPROVED AS TO FORM

LLOYD W. PELLMAN
County Counsel

By _____

Deputy

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2003

NEW ISSUE-BOOK-ENTRY-ONLY

NO RATING

In the opinion of McFarlin & Anderson LLP, Lake Forest, California ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants and agreements, interest on the Series 2003A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2003A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that interest on the Series 2003A Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003A Bonds. See the information contained herein under the caption "CONCLUDING INFORMATION – Tax Exemption" and the form of opinion of Bond Counsel attached hereto as Appendix D.

\$9,000,000*
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C SPECIAL TAX BONDS
SERIES 2003A

Dated: Date of Delivery

Due: September 1, as shown below

The Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District") Improvement Area C Special Tax Bonds, Series 2003A (the "Series 2003A Bonds") are being issued to finance certain public facilities within or benefiting Improvement Area C of the District (the "Improvement Area"), to fund the Reserve Fund and to pay for costs of issuance incurred in connection with the issuance of the Series 2003A Bonds. See "THE IMPROVEMENT AREA – Description of Authorized Facilities."

The District is located in the northern portion of the County of Los Angeles, California (the "County"). The Improvement Area consists of approximately 72.5 net developable acres of land. The Improvement Area, upon completion of the construction and sale of all of the residential units expected to be completed therein, is expected to consist of 140 single-family detached dwelling units, 567 apartment units and 98 town home units. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Status in the Improvement Area."

The Series 2003A Bonds are authorized to be issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (being Section 53311 et seq. of the Government Code of the State of California) (the "Act"), a resolution (the "Resolution") adopted on July 30, 2002, by the Board of Supervisors (the "Board") of the County, acting as the legislative body of the District, and the Indenture, dated as of April 1, 2003 (the "Indenture"), executed by the District, acting through the Board as the legislative body, the Treasurer and Tax Collector of the County, as paying agent, and the Auditor-Controller of the County, as fiscal agent. U.S. Bank National Association will initially serve as Paying Agent by delegation of the Treasurer and Tax Collector of the County.

The payment of principal of, premium, if any, and interest on the Series 2003A Bonds is secured by and payable from the Special Tax (as defined herein) levied on property located within the Improvement Area, after the payment of Administrative Expenses ("Net Taxes"), and the funds and accounts held under the Indenture. The Special Tax is levied according to the Amended and Restated Rate and Method of Apportionment approved by the owners of the property within the Improvement Area. The Special Taxes are collected in the same manner and at the same time as ad valorem property taxes are collected by the Treasurer and Tax Collector of the County (the "Treasurer"). See "SECURITY FOR THE SERIES 2003A BONDS."

Interest on the Series 2003A Bonds is payable on March 1 and September 1 of each year, commencing on September 1, 2003. The Series 2003A Bonds will be delivered in fully registered form only, and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2003A Bonds. Ownership interests in the Series 2003A Bonds may be purchased in book-entry form only, in the denominations of \$5,000 or any integral multiple thereof. So long as the Series 2003A Bonds are registered in the name of Cede & Co., as nominee of DTC, principal of, premium, if any, and interest on the Series 2003A Bonds will be paid by the Paying

Agent to DTC or its nominee which will in turn remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of interests in the Series 2003A Bonds as described herein. See Appendix F – “BOOK-ENTRY-ONLY SYSTEM.”

The Series 2003A Bonds are subject to optional redemption and mandatory sinking fund redemption as set forth herein. See “THE SERIES 2003A BONDS – Optional Redemption” and “– Mandatory Sinking Fund Redemption.”

THE SERIES 2003A BONDS AND INTEREST THEREON TOGETHER WITH ANY PREMIUM PAID THEREON UPON REDEMPTION, ARE NOT OBLIGATIONS OF THE COUNTY, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT SECURED BY AND PAYABLE FROM AN IRREVOCABLE FIRST LIEN ON THE NET TAXES. EXCEPT WITH RESPECT TO THE SPECIAL TAXES, NEITHER THE CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE COUNTY IS PLEDGED FOR THE PAYMENT OF THE SERIES 2003A BONDS OR THE INTEREST THEREON, AND, NO BONDOWNER MAY COMPEL THE EXERCISE OF TAXING POWER BY THE DISTRICT OR THE COUNTY OR THE FORFEITURE OF ANY OF THEIR PROPERTY. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2003A BONDS AND PREMIUMS UPON THE REDEMPTION THEREOF, IF ANY, ARE NOT A DEBT OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION. THE BONDS ARE NOT A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE DISTRICT'S PROPERTY, OR UPON ANY OF ITS INCOME, RECEIPTS, OR REVENUES, EXCEPT THE AMOUNTS WHICH ARE, UNDER THE INDENTURE AND THE ACT, SET ASIDE FOR THE PAYMENT OF THE SERIES 2003A BONDS AND INTEREST THEREON AND NEITHER THE MEMBERS OF THE LEGISLATIVE BODY OF THE DISTRICT NOR ANY PERSONS EXECUTING THE SERIES 2003A BONDS ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE.

See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of the risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series 2003A Bonds.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A COMPLETE SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE
\$ _____ * Serial Bonds

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
--	-----------------------------------	--------------------------------	---------------------------------	--	-----------------------------------	--------------------------------	---------------------------------

\$ _____ % Term Bonds due September 1, 20__ - Price: _____ % to yield _____ %

\$ _____ % Term Bonds due September 1, 20__ - Price: _____ % to yield _____ %

The Series 2003A Bonds are offered when, as and if issued, subject to approval as to their legality by McFarlin & Anderson LLP, Lake Forest, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by County Counsel of the County, for the Master Developer by its counsel, Pillsbury Winthrop LLP, Los Angeles, California, and for the Underwriter by its counsel, Hawkins, Delafield & Wood, Los Angeles, California. It is anticipated that the Series 2003A Bonds in book-entry form will be available to DTC in New York, New York on or about _____, 2003.

_____, 2003

UBS PaineWebber Inc.

* Preliminary, subject to change.

COUNTY OF LOS ANGELES BOARD OF SUPERVISORS

Yvonne Brathwaite Burke, Chair
Second District

Gloria Molina
First District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Violet Varona-Lukens
Executive Officer - Clerk
Board of Supervisors

LOS ANGELES COUNTY OFFICIALS

David E. Janssen
Chief Administrative Officer

Mark J. Saladino
Treasurer and Tax Collector

J. Tyler McCauley
Auditor-Controller

Lloyd W. Pellman
County Counsel

BOND COUNSEL

McFarlin & Anderson LLP
Lake Forest, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

APPRAISER

Brown, Chudleigh, Schuler, Donaldson & Associates

FINANCIAL CONSULTANT TO DEVELOPER

C.M. De Crinis & Co., Inc.
Studio City, California

FISCAL AGENT

Auditor-Controller of the County of Los Angeles

PAYING AGENT

Treasurer and Tax Collector of the County of Los Angeles

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
General	1
Authorization to Issue the Series 2003A Bonds	2
The Improvement Area	2
Security for the Series 2003A Bonds	3
Additional Bonds	3
Book-Entry-Only System	3
Reserve Fund	4
Limited Obligation	4
Land Values	4
Special Risk Factors	5
Continuing Disclosure	5
Tax Matters	5
Forward Looking Statements	5
Professionals Involved in the Offering	6
Summaries of Documents; Documents Available for Inspection	6
THE SERIES 2003A BONDS	6
Authority for Issuance	6
Description of the Series 2003A Bonds	7
Optional Redemption	7
Mandatory Sinking Fund Redemption	8
Selection of Bonds for Redemption	9
Notice of Redemption	9
Partial Redemption	10
Effect of Redemption	10
SECURITY FOR THE SERIES 2003A BONDS	11
General	11
Limited Liability	12
Pledge of Special Tax Revenues	12
The Special Taxes	13
Reserve Fund	13
Covenant for Superior Court Foreclosure	13
Land Values	14
Additional Bonds	15
THE IMPROVEMENT AREA	16
General	16
Summary of Formation Proceedings	16
Amended and Restated Rate and Method of Apportionment of Special Tax	16
Description of Authorized Facilities	17
Estimated Appraised Value-to-Lien Ratio	17
Tax Delinquencies	18
Special Tax Levy	18
Debt Service Coverage	22
THE DEVELOPMENT AND PROPERTY OWNERSHIP	23

General	23
Stevenson Ranch	23
The Master Developer	23
The Merchant Builders	24
Project Approvals	24
Environmental Review	25
Development Status in Improvement Areas A and B of the District	26
Development Status in the Improvement Area	26
Market Absorption Study	27
SPECIAL RISK FACTORS	27
General Risks of Real Estate Investments	28
No General Obligation of the County or District	28
Appraised Values	28
Concentration of Ownership	29
Local, State and Federal Land Use Regulations	29
Land Development	30
Failure to Develop Properties	30
Hazardous Materials	31
Seismic Activity	32
Additional and Overlapping Debt	32
Parity Taxes and Special Assessments	34
Insufficiency of Special Taxes	34
Disclosures to Future Purchasers	35
Federal Government Interests in Properties	36
Bankruptcy	37
Funds Invested in the County Investment Pool	38
No Acceleration Provisions	38
Loss of Tax Exemption	38
Constitutional Limitations on Taxation and Appropriations	38
Future Legislation or Ballot Initiatives	40
Secondary Markets and Prices	41
Enforceability of Remedies	41
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	41
Funds and Accounts	41
Investment of Moneys	43
Covenants	46
Conditions for the Issuance of Additional Bonds	47
Supplemental Indentures	47
Defeasance	47
Events of Default and Remedies	48
Paying Agent and Fiscal Agent	49
CONTINUING DISCLOSURE	50
CONCLUDING INFORMATION	50
Underwriting	50
Certain Legal Matters	50
Tax Exemption	51
Litigation	52

Judicial Validation	52
Miscellaneous.....	53
APPENDIX A – SUMMARY OF APPRAISAL REPORT.....	A-1
APPENDIX B – SUMMARY OF MARKET ABSORPTION STUDY	B-1
APPENDIX C – AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COUNTY OF LOS ANGELES COMMUNITY FACILITIES DISTRICT NO. 3 IMPROVEMENT AREA C	C-1
APPENDIX D— FORM OF APPROVING OPINION OF BOND COUNSEL.....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE UNDERTAKINGS.....	E-1
APPENDIX F— BOOK-ENTRY-ONLY SYSTEM.....	F -1

IN CONNECTION WITH THE OFFERING OF THE SERIES 2003A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2003A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Series 2003A Bonds described herein, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County, the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2003A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the County, the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the County, the District or the Underwriter. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the County, the District, or any major property owner within the District since the date hereof. This Official Statement is submitted in connection with the sale of Series 2003A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2003A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

[INSERT MAP]

\$9,000,000*
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C SPECIAL TAX BONDS,
SERIES 2003A

INTRODUCTORY STATEMENT

General

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District") of \$9,000,000* aggregate principal amount of its Improvement Area C Special Tax Bonds, Series 2003A (the "Series 2003A Bonds"). The Series 2003A Bonds will be issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, Section 53311 *et seq.* of the Government Code of the State of California (the "Act") and the Indenture, dated as of April 1, 2003 (the "Indenture"), executed by the Board of Supervisors (the "Board") of the County of Los Angeles (the "County"), acting in its capacity as the legislative body of the District, the Treasurer and Tax Collector of the County (the "Treasurer"), as paying agent, and the Auditor-Controller of the County, as fiscal agent (the "Fiscal Agent"). Under the Indenture, the Treasurer has been appointed as the paying agent for the Series 2003A Bonds and, pursuant to the authority vested in him under the Indenture, the Treasurer has selected U.S. Bank National Association to act on behalf of the Treasurer as paying agent (the "Paying Agent").

The proceeds of the Series 2003A Bonds will be used to finance certain public facilities within or benefiting Improvement Area C of the District (the "Improvement Area"), to fund the Reserve Fund and to pay for costs of issuance incurred in connection with the issuance of the Series 2003A Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE IMPROVEMENT AREA – Description of Authorized Facilities."

The District is located in the northern portion of the County. The Improvement Area consists of approximately 111.62 gross acres and approximately 72.5 net developable acres of land. The Improvement Area, upon completion of the expected improvements and sale of all of the residential units expected to be completed therein, is expected to consist of 140 single-family detached dwelling units, 567 apartment units and 98 town home units. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Status in the Improvement Area."

The payment of principal of, premium, if any, and interest on the Series 2003A Bonds is secured by and payable from the Special Tax (as defined herein) levied on property located within the Improvement Area, after the payment of Administrative Expenses ("Net Taxes"), and the funds and accounts held under the Indenture. The Special Tax is levied according to the amended and restated rate and method of apportionment approved by the owners of the property within the Improvement Area. The Special Taxes are collected in the same manner and at the same time as ad valorem property taxes are collected by the Treasurer and Tax Collector of the County (the "Treasurer"). See "SECURITY FOR THE SERIES 2003A BONDS."

* Preliminary, subject to change.

Authorization to Issue the Series 2003A Bonds

The Act was enacted by the State of California Legislature to provide an alternative method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified electors within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness.

The Act also permits the designation of one or more improvement areas within a community facilities district. Subject to approval by two-thirds of the qualified electors within a designated improvement area, a community facilities district may incur bonded indebtedness to finance specific facilities and services within or benefiting an improvement area. Such bonded indebtedness is payable only from authorized special taxes levied on land within such improvement area. The proceedings for formation of the District, as described in the following paragraph, included designation of three improvement areas, consisting of Improvement Area A, Improvement Area B and Improvement Area C. The Series 2003A Bonds are secured solely by Special Taxes to be levied and collected within Improvement Area C.

Pursuant to the Act, the Board, acting as the legislative body of the District, adopted a resolution stating its intent to establish the District and the three improvement areas within the District and authorized the levy of special taxes on land within the boundaries of each of the three improvement areas. Following a public hearing conducted pursuant to the Act, the Board, as the legislative body of the District, adopted a resolution establishing the District and the Improvement Area and calling a special election to submit the propositions authorizing the levy of the Special Taxes and the incurring of a bonded indebtedness to the qualified electors of the Improvement Area. On June 9, 1989, at an election held pursuant to the Act, the Dale Poe Development Company, the prior landowner and sole qualified elector of the Improvement Area, authorized the District to incur bonded indebtedness in an amount not to exceed \$15,000,000 for the Improvement Area and approved the rate and method of apportionment of the Special Taxes. At a special election held on July 9, 2002, the sole owner of the property within the boundaries of the Improvement Area authorized the District to reduce the maximum bonded indebtedness from \$15,000,000 to \$9,000,000 and approved the Amended and Restated Rate and Method of Apportionment of the Special Tax (the "Authorization"). The issuance of the Series 2003A Bonds is the first issue with respect to Improvement Area C. See "THE IMPROVEMENT AREA – Summary of Formation Proceedings."

The amount of the Special Tax to be levied annually will depend on, among other things, whether a given parcel is classified as Developed Property or Undeveloped Property (as such terms are hereinafter defined) and on the square footage and type of the residential units classified as Developed Property. See "THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax."

The Improvement Area

The Improvement Area consists of approximately 111.62 gross acres of land within the unincorporated area of the County and is part of the approximately total 1,110 gross acres comprising the District located in the Santa Clarita Valley of the County, approximately 35 miles north of downtown Los Angeles. The land in the Improvement Area is expected to equal approximately 72.5 net developable acres. The Improvement Area upon completion of the construction and sale of all of the residential units

expected to be completed therein, is expected to consist of 140 single-family detached dwelling units, 567 apartment units and 98 town home units.

The Amended and Restated Rate and Method of Apportionment of Special Tax classifies property to be taxed into “developed property,” which is all Assessor’s Parcels in the Improvement Area for which a building permit has been issued as of May 1 of the preceding fiscal year (“Developed Property”), and “undeveloped property,” which is all other taxable property not classified as Developed Property (“Undeveloped Property”). As of March 1, 2003, 36 building permits have been issued. All parcels within the Improvement Area which do not have building permits issued as of May 1 of the preceding fiscal year are considered “Undeveloped Property” under the Amended and Restated Rate and Method of Apportionment of Special Tax. See “THE IMPROVEMENT AREA.”

Security for the Series 2003A Bonds

The Series 2003A Bonds will be secured pursuant to the terms of the Indenture and, subject to the limitations therein, by the portion of the Special Taxes pledged to repay the Series 2003A Bonds and all moneys in the Bond Service Fund, the Redemption Fund, and the Reserve Fund and certain moneys in the Special Tax Fund created pursuant to the terms of the Indenture. See “SECURITY FOR THE SERIES 2003A BONDS” and “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The Special Taxes pledged to the payment of the Series 2003A Bonds are to be included on the regular property tax bills sent to the record owners of property within the Improvement Area. The District has covenanted for the benefit of the owners of the Series 2003A Bonds (the “Bondowners”) that, under certain circumstances described herein, it will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the Improvement Area and will diligently pursue such proceedings to completion. See “SECURITY FOR THE SERIES 2003A BONDS – The Special Taxes” and “– Covenant for Superior Court Foreclosure.”

Additional Bonds

Upon issuance of the Series 2003A Bonds, the District may issue additional bonds (“Additional Bonds”) up to the remaining maximum amount of \$ _____*, as permitted under the Authorization and the Indenture. However, the District does not expect to issue Additional Bonds for the Improvement Area except in connection with the issuance of any refunding bonds. See “SECURITY FOR THE SERIES 2003A BONDS – Additional Bonds” and “SPECIAL RISK FACTORS – Additional and Overlapping Debt” herein.

Book-Entry-Only System

The Series 2003A Bonds will be delivered in fully registered form only and when executed and delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Series 2003A Bonds. Ownership interests may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. So long as the Series 2003A Bonds are registered in the name of Cede & Co., as nominee of DTC, principal of, premium, if any, and interest on the Series 2003A Bonds is payable to DTC participants for subsequent disbursement to beneficial owners of the Series 2003A Bonds. See Appendix F – “BOOK-ENTRY-ONLY SYSTEM.”

* Preliminary, subject to change.

Reserve Fund

As additional security for all the Series 2003A Bonds, a Reserve Fund has been established, and a portion of the proceeds of the sale of the Series 2003A Bonds will be deposited therein, so that the aggregate amount on deposit in the Reserve Fund will equal the Reserve Requirement. The Indenture provides that the Reserve Requirement means, as of any date of calculation, an amount equal to the least of (a) 10% of the stated principal amount (within the meaning of Section 148 of the Code) of each Series of Bonds, (b) Maximum Annual Debt Service on the Outstanding Bonds or (c) 125% of Average Annual Debt Service (as defined in the Indenture); *provided*, that any Reserve Facility shall be taken into account in calculating the balance on deposit in the Reserve Fund. If the amount on deposit in the Reserve Fund is less than the Reserve Requirement, then the District has covenanted to restore the amount in the Reserve Fund to the Reserve Requirement, to the extent of available funds. The moneys in the Reserve Fund, including draws on the Reserve Facility, if any, will be used for the payment of the principal of, premium, if any, and interest on the Series 2003A Bonds, in the event that the moneys in the Bond Service Fund are insufficient therefor and for payment of the principal of, premium, if any, and interest on, the last maturity of the Series 2003A Bonds. See "SECURITY FOR THE SERIES 2003A BONDS – Reserve Fund."

Limited Obligation

THE SERIES 2003A BONDS AND INTEREST THEREON TOGETHER WITH ANY PREMIUM PAID THEREON UPON REDEMPTION, ARE NOT OBLIGATIONS OF THE COUNTY, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT SECURED BY AND PAYABLE FROM AN IRREVOCABLE FIRST LIEN ON THE NET TAXES. EXCEPT WITH RESPECT TO THE SPECIAL TAXES, NEITHER THE CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE COUNTY IS PLEDGED FOR THE PAYMENT OF THE SERIES 2003A BONDS OR THE INTEREST THEREON, AND, NO BONDOWNER MAY COMPEL THE EXERCISE OF TAXING POWER BY THE DISTRICT OR THE COUNTY OR THE FORFEITURE OF ANY OF THEIR PROPERTY. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2003A BONDS AND PREMIUMS UPON THE REDEMPTION THEREOF, IF ANY, ARE NOT A DEBT OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION. THE BONDS ARE NOT A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE DISTRICT'S PROPERTY, OR UPON ANY OF ITS INCOME, RECEIPTS, OR REVENUES, EXCEPT THE AMOUNTS WHICH ARE, UNDER THE INDENTURE AND THE ACT, SET ASIDE FOR THE PAYMENT OF THE SERIES 2003A BONDS AND INTEREST THEREON AND NEITHER THE MEMBERS OF THE LEGISLATIVE BODY OF THE DISTRICT NOR ANY PERSONS EXECUTING THE SERIES 2003A BONDS ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE.

Land Values

An appraisal of the property in the Improvement Area, dated February 1, 2003 (the "Appraisal"), has been prepared by Brown, Chudleigh, Schuler, Donaldson and Associates of Medford, Oregon (the "Appraiser"). The purpose of the Appraisal was to ascertain the market value of the land and improvements, including improvements to be financed with the proceeds of the Series 2003A Bonds, in the Improvement Area as of February 1, 2003, based on certain assumptions. The Appraiser has estimated the fair market value of the land and improvements, including improvements to be financed with the proceeds of the Series 2003A Bonds in the Improvement Area, to be \$43,500,000 as of February 1, 2003, providing an overall Improvement Area C appraised value-to-lien ratio (including the

Series 2003A Bonds) of approximately 4.83-to-1.* For a discussion of the assumptions and limiting conditions of the Appraiser in preparing the Appraisal, see “Assumptions and Limiting Conditions” in Appendix A.

Based on information provided by the County Assessor, the assessed valuation within the Improvement Area as of January 1, 2002 was \$10,895,739, all of which amount as of such date was attributable to Undeveloped Property within the Improvement Area. Since January 1, 2002, certain properties within the Improvement Area have been sold. Furthermore, the assessment as of January 1, 2002 does not reflect improvements made to date within the Improvement Area. See “SECURITY FOR THE SERIES 2003A BONDS – Land Values” and Appendix A – “SUMMARY OF APPRAISAL REPORT.”

Special Risk Factors

A number of risk factors should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series 2003A Bonds. See “SPECIAL RISK FACTORS.”

Continuing Disclosure

The District and the Master Developer (as defined herein), on behalf of itself and any and each major landowner (as defined herein) in the Improvement Area, have each agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c-2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data. The District and the Master Developer have further agreed to provide notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c-2-12(b)(5). See “CONTINUING DISCLOSURE” and APPENDIX E for a description of the specific nature of the annual reports to be filed by the District and the Master Developer, and notices of material events to be provided by the District and the Master Developer.

Tax Matters

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described herein, is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Set forth in Appendix D is the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “CONCLUDING INFORMATION – Tax Exemption.”

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements

* Preliminary, subject to change.

contained in the information under the captions "THE IMPROVEMENT AREA" and "THE DEVELOPMENT AND PROPERTY OWNERSHIP."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

U.S. Bank National Association will act as Paying Agent under the Indenture and as the initial Dissemination Agent under the Master Developer Continuing Disclosure Undertaking (the "Developer Continuing Disclosure Undertaking"). The Treasurer and Tax Collector of the County of Los Angeles will act as the initial Dissemination Agent under the District Continuing Disclosure Undertaking (the "District Continuing Disclosure Undertaking"). See APPENDIX E. UBS PaineWebber Inc. is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of McFarlin & Anderson LLP, Lake Forest, California, Bond Counsel. Certain legal matters will be passed upon for the Master Developer by its counsel, Pillsbury Winthrop LLP, Los Angeles, California, and for the Underwriter by its counsel, Hawkins, Delafield & Wood, California. Other professional services have been performed by David Taussig & Associates, Inc., Special Tax Consultant, Brown, Chudleigh, Schuler, Donaldson and Associates of Medford, Oregon, Appraiser and Empire Economics, Inc., Market Absorption Analyst.

For information concerning the respects in which certain of the above-mentioned professional, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see "CONCLUDING INFORMATION – Miscellaneous."

Summaries of Documents; Documents Available for Inspection

Brief descriptions of the Series 2003A Bonds, the security for the Series 2003A Bonds, special risk factors, the Indenture, the District, the Improvement Area, the County, the Appraisal, the Market Absorption Study and other information are included in this Official Statement together with summaries of certain provisions of the Series 2003A Bonds and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All such descriptions of documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the Treasurer and Tax Collector of the County of Los Angeles, 500 West Temple Street, Room 432, Los Angeles, California 90012.

THE SERIES 2003A BONDS

Authority for Issuance

The District and the Improvement Area were established and bonded indebtedness in an amount not to exceed \$9,000,000 was authorized for the Improvement Area pursuant to the Act. Under the provisions of the Act, since there were fewer than 12 registered voters residing within the Improvement Area at the time of the election, the qualified elector, who was the initial developer of the property and the

sole landowner within the Improvement Area was entitled to cast one vote for each acre or portion of an acre of land it owned within the Improvement Area. At a special election held on June 9, 1989, the sole landowner voted to incur bonded indebtedness in an amount not to exceed \$15,000,000 for the Improvement Area and approved an annual levy of Special Taxes to be collected within the Improvement Area. At a special election held on July 9, 2002, the sole landowner authorized the District to reduce the maximum bonded indebtedness from \$15,000,000 to \$9,000,000 and approved the Amended and Restated Rate and Method of Apportionment of the Special Taxes. The Series 2003A Bonds are the first issue of bonds for the Improvement Area. See "THE IMPROVEMENT AREA – Summary of Formation Proceedings." See "SECURITY FOR THE SERIES 2003A BONDS – Additional Bonds."

Description of the Series 2003A Bonds

The Series 2003A Bonds will be issued in the aggregate principal amount shown on the cover page of this Official Statement and will be dated as shown on the cover page of this Official Statement. The Series 2003A Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or its nominee, Cede & Co., is the registered owner of all Series 2003A Bonds, all payments on the Series 2003A Bonds will be made directly to DTC, and disbursement of such payments to the DTC Participants (as defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined below) of the Series 2003A Bonds will be the responsibility of the DTC Participants as more fully described herein.

Interest on the Series 2003A Bonds will accrue from its date at the rates per annum set forth on the inside cover page hereof, payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2003 (each, an "Interest Payment Date"), to the persons in whose names the Series 2003A Bonds are registered on the 15th calendar day of the month preceding each such Interest Payment Date (each, a "Record Date") (whether or not such day is a business day) and the principal of the Series 2003A Bonds will be payable on September 1 in each of the years and in the amounts shown on the inside cover page hereof. Each Series 2003A Bond will bear interest from the Interest Payment Date next preceding the date of authentication of that Series 2003A Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the dated date of the 2003A Bonds; provided, however, that if at the time of authentication of such Series 2003 Bond, interest is in default, interest on that Series 2003 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or from the dated date of the Series 2003A Bonds if no interest has been paid or made available for payment. Interest on any Series 2003A Bond shall be paid by check or draft of the Paying Agent mailed by first class mail, postage prepaid, to the person whose name shall appear in the Bond Register as the Owner of such 2003A Bond as of the close of business on the Record Date at the address which appears on the Bond Register; provided, however, that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of Series 2003A Bonds, upon written request of such Owner to the Paying Agent 20 days prior to any Interest Payment Date, such interest shall be paid on the Interest Payment Date in immediately available funds by wire transfer. Interest with respect to each Series 2003A Bond shall be computed using a year of 360 days comprised of twelve 30-day months.

Optional Redemption

[The Series 2003A Bonds maturing on September 1, 20__, are not subject to optional redemption prior to maturity. The Bonds maturing on September 1, 20__ may be redeemed prior to maturity, in

whole or in part on any Interest Payment Date pro rata among maturities and by lot within a maturity from amounts on deposit in the Redemption Fund, at the option of the District on or after September 1, 20__, at a redemption price equal to __% of the principal amount of the Series 2003A Bonds to be redeemed, plus accrued interest to the redemption date.]

In the event the District elects to redeem Series 2003A Bonds as provided above, the District shall give written notice to the Paying Agent of its election to so redeem the Series 2003A Bonds, the redemption date and the principal amount of the Series 2003A Bonds to be redeemed. The notice to the Paying Agent shall be given at least 30 days but no more than 60 days prior to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2003A Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__, and on each September 1 thereafter to and including September 1, 20__ from mandatory sinking fund payments set aside in the Bond Service Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<u>Redemption Dates</u> <u>(September 1)</u>		<u>Principal Amount</u>
20__	\$	
20__		
20__		
20__		
20__		
20__		
20__ (maturity)		

The Series 2003A Bonds maturing September 1, 20__ (the "20__ Term Bonds") shall be subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__ and on each September 1 thereafter to and including September 1, 20__ from mandatory sinking fund payments set aside in the Bond Service Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<u>Redemption Dates</u> <u>(September 1)</u>		<u>Principal Amount</u>
20__	\$	
20__		
20__		
20__		
20__		
20__		
20__ (maturity)		

In lieu of having the Fiscal Agent deposit cash with the Paying Agent as a mandatory sinking fund payment, the District shall have the option to tender to the Paying Agent for cancellation any amount of Series 2003A Term Bonds purchased by the District, which Series 2003A Term Bonds may be purchased by the District at public or private sale as and when and at such prices as the District may in its

discretion determine. The par amount of any Series 2003A Term Bonds so purchased by the District and tendered to the Paying Agent in any twelve-month period ending on July 1 in any calendar year shall be credited towards and shall reduce the next mandatory sinking fund payments required to be made in the order in which they are required to be made pursuant to the Indenture.

Selection of Bonds for Redemption

If less than all of the Outstanding Series 2003A Bonds are to be redeemed, the Paying Agent shall redeem the Series 2003A Bonds pro rata among maturities and by lots within a maturity; provided, however, that the portion of any Series 2003A Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof and that, in selecting portions of such Series 2003A Bonds for redemption, the Paying Agent shall treat each such Series 2003A Bond as representing that number of Series 2003A Bonds of a \$5,000 denomination which is obtained by dividing the principal amount of such Series 2003A Bond to be redeemed in part by \$5,000. The Paying Agent shall promptly notify the District in writing of the Series 2003A Bonds, or portions thereof, selected for redemption. In the event of a partial redemption of any Series 2003A Term Bonds, the mandatory sinking fund payments shall be reduced by the aggregate principal amount of Series 2003A Term Bonds to be partially redeemed in inverse order of mandatory sinking fund redemption dates.

Notice of Redemption

When redemption is required pursuant to the Indenture, the Paying Agent shall give notice (the "Redemption Notice"), at the expense of the District, of the redemption of the Series 2003A Bonds. Such Redemption Notice shall specify: (i) the Series 2003A Bonds or designated portions thereof which are to be redeemed, (ii) the date of redemption, (iii) the place or places where the redemption will be made, including the name and address of any redemption agent, (iv) the redemption price, (v) the CUSIP numbers (if any) assigned to the Series 2003A Bonds to be redeemed, (vi) if less than all Series 2003A Bonds of a maturity are to be redeemed, the Series 2003A Bond numbers of the Series 2003A Bonds to be redeemed, and (vii) the original issue date, interest rate and stated maturity date of each Series 2003A Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Series 2003A Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable.

Under the terms of the Indenture, the Paying Agent shall take the following actions with respect to such Redemption Notice: (i) at least 30 but not more than 45 days prior to the redemption date, such Redemption Notice shall be given to the respective owners of Series 2003A Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register as of the close of business on the day before such Redemption Notice is given, (ii) at least 35 days before the redemption date, such Redemption Notice shall be given by (A) registered or certified mail, postage prepaid, (B) confirmed facsimile transmission, or (C) overnight delivery service, to each of the Securities Depositories, and (iii) at least 35 days before the redemption date, such Redemption Notice shall be given by (A) registered or certified mail, postage prepaid, or (B) overnight delivery service, to one of the Information Services.

Neither the failure to receive any Redemption Notice nor any defect in such Redemption Notice so given will affect the sufficiency of the proceedings for the redemption of such Series 2003A Bonds. Each check or other transfer of funds issued by the Paying Agent for the purpose of redeeming Series 2003A Bonds will bear to the extent specified the CUSIP number identifying, by issue and maturity, the Series 2003A Bonds being redeemed with the proceeds of such check or other transfer.

Partial Redemption

Upon surrender of any Series 2003A Bond to be redeemed in part only, the Paying Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Series 2003A Bond or Bonds of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Series 2003A Bond surrendered, with the same interest rate and the same maturity. Such partial redemption shall be valid upon payment of the amount required to be paid to such Bondowner, and the District and the Paying Agent shall be released and discharged thereupon from all liability to the extent of such payment.

Effect of Redemption

Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption, (i) the Series 2003A Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything in the Indenture or the Series 2003A Bonds to the contrary notwithstanding; (ii) upon presentation and surrender thereof at the Principal Office of the Paying Agent, such Series 2003A Bonds shall be redeemed at the redemption price; (iii) from and after the redemption date, the Series 2003A Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Series 2003A Bonds or portions thereof shall cease to bear further interest; and (iv) from and after the date fixed for redemption, no Bondowner of any Series 2003A Bonds so designated for redemption shall be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

TABLE 1
ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2003A Bonds are expected to be used as follows:

<u>Sources of Funds</u>	\$
Principal Amount of Bonds	
Original Issue Premium	
Less Underwriter's Discount	
Less Net Original Issue Discount	
Total Sources	\$
<u>Uses of Funds</u>	
Project Acquisition Costs	\$
Bond Service Fund	
Reserve Fund	
Costs of Issuance Fund ⁽¹⁾	
Total Uses	\$

⁽¹⁾ Includes the fees and expenses of Bond Counsel, the Fiscal Agent, the Paying Agent, the Appraiser and other consultants and professionals.

The following is the debt service schedule for the Series 2003A Bonds assuming noearly redemptions of the Series 2003A Bonds other than mandatory sinking fund redemptions.

TABLE 2
DEBT SERVICE SCHEDULE

<u>Period Ending</u> <u>(September 1)</u>	\$	<u>Principal</u>	\$	<u>Interest</u>	\$	<u>Total</u> <u>Annual</u> <u>Debt Service</u>
--	----	------------------	----	-----------------	----	--

SECURITY FOR THE SERIES 2003A BONDS

General

The Series 2003A Bonds and the interest thereon, are payable from a portion of the annual Special Taxes to be levied and collected on property within the District subject to the Special Taxes and proceeds, if any, from the sale of such property for delinquency of such Special Taxes and from amounts deposited in the Bond Service Fund, the Redemption Fund and the Reserve Fund, and from certain amounts deposited in the Special Tax Fund. Annual payments of principal and interest on the Series 2003A Bonds shall be payable from the Special Taxes collected and remaining after the payment of Administrative Expenses (the "Net Taxes").

Limited Liability

THE SERIES 2003A BONDS AND INTEREST THEREON TOGETHER WITH ANY PREMIUM PAID THEREON UPON REDEMPTION, ARE NOT OBLIGATIONS OF THE COUNTY, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT SECURED BY AND PAYABLE FROM AN IRREVOCABLE FIRST LIEN ON THE NET TAXES. EXCEPT WITH RESPECT TO THE SPECIAL TAXES, NEITHER THE CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE COUNTY IS PLEDGED FOR THE PAYMENT OF THE SERIES 2003A BONDS OR THE INTEREST THEREON, AND, NO BONDOWNER MAY COMPEL THE EXERCISE OF TAXING POWER BY THE DISTRICT OR THE COUNTY OR THE FORFEITURE OF ANY OF THEIR PROPERTY. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2003A BONDS AND PREMIUMS UPON THE REDEMPTION THEREOF, IF ANY, ARE NOT A DEBT OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION. THE BONDS ARE NOT A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE DISTRICT'S PROPERTY, OR UPON ANY OF ITS INCOME, RECEIPTS, OR REVENUES, EXCEPT THE AMOUNTS WHICH ARE, UNDER THE INDENTURE AND THE ACT, SET ASIDE FOR THE PAYMENT OF THE SERIES 2003A BONDS AND INTEREST THEREON AND NEITHER THE MEMBERS OF THE LEGISLATIVE BODY OF THE DISTRICT NOR ANY PERSONS EXECUTING THE SERIES 2003A BONDS ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE.

Although the unpaid Special Taxes constitute liens on parcels within the District, they do not constitute a personal indebtedness of any property owner within the District. There is no assurance that any property owner will be financially able to pay the Special Taxes or that it will pay such Special Taxes even though financially able to do so. See "SPECIAL RISK FACTORS" herein for additional information.

Pledge of Special Tax Revenues

The amount of Special Taxes that the District may levy in the District in any year is strictly limited by the Amended and Restated Rate and Method of Apportionment of Special Taxes approved by the qualified electors within the District. Pursuant to the Indenture, the District has pledged and assigned to the Paying Agent and the Fiscal Agent, as applicable, all Net Taxes for the payment of principal of, premium, if any, and interest on the Series 2003A Bonds. "Net Taxes" means Special Taxes and all proceeds from the sale of property collected within the Improvement Area pursuant to the foreclosure provisions of the Act and the Indenture, less Administrative Expenses. Pursuant to the Act and the Indenture, the Series 2003A Bonds, shall be and are equally secured by a pledge of and lien upon the Net Taxes and all amounts on deposit in the Bond Service Fund, the Reserve Fund, the Redemption Fund and the Special Tax Fund; *provided, however*, that the pledge of and lien upon amounts on deposit in the Special Tax Fund extends only to the amount of Net Taxes on deposit therein. So long as any of such Series 2003A Bonds are Outstanding and unpaid, the Net Taxes and the interest thereon may be used only as provided in the Indenture. Net Taxes deposited in the Rebate Fund and the Administrative Expense Fund are not pledged to payment of the Series 2003A Bonds and neither the Rebate Fund nor the Administrative Expense Fund shall be construed as pledged to the Bondowners. In the event that the amounts in the Rebate Fund are insufficient, there are no assurances that the District will have sufficient moneys to fulfill its obligation to rebate the rebate requirement to the federal government.

The Special Taxes

The District has covenanted in the Indenture that so long as any Series 2003A Bonds are Outstanding, it will cause the levy of the Special Taxes each year up to the maximum permitted rates in an amount which, together with any moneys on deposit in the Special Tax Fund, the Redemption Fund, and the Bond Service Fund, will be sufficient to pay the principal of, premium, if any, and interest on, the Series 2003A Bonds, Administrative Expenses and any amounts required to maintain the Reserve Fund at the Reserve Requirement. Because each Special Tax levy is limited to the Maximum Special Tax rates authorized by the qualified electors of the District as set forth in the Amended and Restated Rate and Method of Apportionment of Special Tax, no assurance can be given that, in the event of Special Tax delinquencies, the foregoing amount will in fact be collected in any given year. See "THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax" and Appendix C – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR THE IMPROVEMENT AREA."

The Resolution adopted by the Board of Supervisors on June 8, 1989 contained a declaration of the District's intention to levy annually the Special Taxes on undeveloped land and on developed commercial, industrial and residential properties within the Improvement Area. The levy of the Special Taxes was authorized by the qualified electors of the District at a special election held on June 9, 1989. At a special election held on July 9, 2002, the sole owner of the property within the boundaries of the Improvement Area authorized the District to reduce the maximum bonded indebtedness from \$15,000,000 to \$9,000,000 and approved the Amended and Restated Rate and Method of Apportionment of the Special Tax. The Special Taxes are to be apportioned, levied and collected according to the Amended and Restated Rate and Method of Apportionment of Special Tax. See "THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax."

Reserve Fund

In order to further secure the payment of principal and interest on the Series 2003A Bonds, the District established the Reserve Fund, and a portion of the proceeds of the sale of the Series 2003A Bonds will be deposited therein, so that the aggregate amount on deposit in the Reserve Fund will equal the Reserve Requirement. The Reserve Requirement is defined in the Indenture as an amount equal to the least of (a) 10% of the stated principal amount (within the meaning of Section 148 of the Code) of each Series of Bonds, (b) Maximum Annual Debt Service on the Outstanding Bonds or (c) 125% of Average Annual Debt Service (as defined in the Indenture); *provided*, that any Reserve Facility shall be taken into account in calculating the balance on deposit in the Reserve Fund. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts – Reserve Fund." Upon issuance of the Series 2003A Bonds, amounts on deposit in the Reserve Fund must be at least equal to the Reserve Requirement.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the District is authorized by Section 53356.1 of the Act to order institution of an action in the superior courts of the State to foreclose any lien therefor. As a result of such action the real property subject to the Special Taxes may be ordered to be sold at a judicial foreclosure sale.

Such judicial foreclosure proceedings are not mandatory. However, in the Indenture, the District has covenanted with the Bondowners that, if at any time the Fiscal Agent determines that the balance in the Reserve Fund is less than the Reserve Requirement as the result of the failure of one or more owners of real property to pay Special Taxes when due, the District will commence and diligently prosecute to

completion such judicial foreclosure proceedings as may be necessary to restore the Reserve Fund balance to the Reserve Requirement. To date, the District has not initiated actions to commence foreclosure proceedings on any parcels delinquent in the payment of Special Taxes.

If the Reserve Fund is depleted concurrently with the delinquency in the payment of Special Taxes, there could be a default or a delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds, if any. However, within the limits of the Amended and Restated Rate and Method of Apportionment of Special Tax, the District may adjust the Special Taxes levied on all property within the District to provide an amount required to pay debt service on the Series 2003A Bonds and to replenish the Reserve Fund in subsequent periods. See "SPECIAL RISK FACTORS – Insufficiency of Special Taxes" for additional information.

No assurances can be given that a judgment ordering foreclosure will be granted or that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the District is not obligated to purchase or otherwise acquire any lot or parcel of real property sold at the foreclosure sale if there is no other purchaser at such sale. Real property which is subject to a foreclosure judgment remains subject to the lien of the Special Taxes.

If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the County, on behalf of the District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 140 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period under recent legislation may be reduced to 40 days for parcels other than those on which a dwelling unit for not more than four families is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price (equal to the sum of delinquent Special Tax installments, penalties, interest, attorney's fees and costs of collection and sale) unless a lesser minimum bid price is authorized by the Bondowners.

Land Values

The Appraisal was prepared to ascertain the market value of the land in the Improvement Area as of February 1, 2003. In arriving at its estimate of market value, the Appraiser relied upon the market absorption study prepared by Empire Economics, Inc. dated April 2002 and partially revised as of November 6, 2002 as described under "THE IMPROVEMENT AREA – Market Absorption Study" and summarized in Appendix B hereto. See "SPECIAL RISK FACTORS – Appraised Values" and Appendix A – "SUMMARY OF APPRAISAL REPORT" for a description of the assumptions and limiting conditions of the Appraiser. On the basis of the foregoing and other assumptions, the Appraiser has estimated the fair market value of the land and improvements in the Improvement Area as of February 1, 2003 to be \$43,500,000 which is approximately 4.83* times the total aggregate principal amount of the Series 2003A Bonds. See Appendix A – "SUMMARY OF APPRAISAL REPORT – Assumptions and Limiting Conditions."

* Preliminary, subject to change.

Based on information provided by the County Assessor, the assessed valuation of the land within the Improvement Area as of January 1, 2002 was \$10,895,739, which is approximately 1.21* times the total aggregate principal amount of the Series 2003A Bonds and all of which amount as of such date was attributable to Undeveloped Property within the Improvement Area. Since January 1, 2002, certain properties within the Improvement Area have been sold. Furthermore, the assessment as of January 1, 2002 does not reflect improvements made to date within the Improvement Area. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Stevenson Ranch."

No assurance can be given that the foregoing value-to-lien ratios can or will be maintained during the period of time that the Series 2003A Bonds are outstanding. If any of the assumptions made by the Appraiser prove not to be accurate or the assessed values are reduced, the market values of the property could be adversely affected. See Appendix A – "SUMMARY OF APPRAISAL REPORT." In addition, the District has no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, is on parity with the Special Taxes. The District has no control over the ability of such other entities and districts to issue such additional indebtedness. Such special taxes or indebtedness may have a lien on such property on parity with the Special Tax. The imposition of such additional indebtedness may reduce the lien-to-value ratio within the Improvement Area and could reduce the willingness and the ability of the property owners within the Improvement Area to pay the Special Taxes when due. See "SPECIAL RISK FACTORS – Additional and Overlapping Debt." See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." See also "SPECIAL RISK FACTORS – Appraised Values" and "– Additional and Overlapping Debt."

The District makes no representation or warranty as to the accuracy or completeness of the Appraisal, and purchasers of the Series 2003A Bonds may review the complete Appraisal, a copy of which is on file with the Treasurer-Tax Collector during the initial offering period for the Series 2003A Bonds.

Additional Bonds

Following the issuance of the Series 2003A Bonds, the District may issue additional bonds ("Additional Bonds") up to the remaining maximum amount of \$_____,*, as permitted under the Authorization and the Indenture. However, the District does not expect to issue Additional Bonds for the Improvement Area except in connection with the issuance of any refunding bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds" herein.

In addition to Additional Bonds that may be issued under the Indenture, entities other than the District may cause the issuance of additional indebtedness secured by special taxes or assessments levied or assessed upon all or a portion of the property within the Improvement Area. The District has no control over the ability of such other entities and districts to issue such additional indebtedness. Such special taxes or indebtedness will have a lien on such property on parity with the Special Tax. The imposition of such additional indebtedness may reduce the lien-to-value ratio within the Improvement Area and could reduce the willingness and the ability of the property owners within the Improvement Area to pay the Special Taxes when due. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Conditions for the Issuance of Additional Bonds," "THE IMPROVEMENT AREA" and "SPECIAL RISK FACTORS – Additional and Overlapping Debt" and "– Parity Taxes and Special Assessments" herein.

* Preliminary, subject to change.

THE IMPROVEMENT AREA

General

The following information regarding development and ownership of property in the District has been derived from sources which the District believes to be reliable but is not guaranteed as to accuracy or completeness. This information has been included because it may be considered relevant to an informed evaluation and analysis of the Series 2003A Bonds and the District. The inclusion in this Official Statement of the following information should not be construed to suggest that the Series 2003A Bonds or the Special Taxes that will be used to pay the Series 2003A Bonds are obligations of any owner of property within the Improvement Area payable other than from Special Taxes and foreclosure proceeds. The Series 2003A Bonds are secured solely by the Net Taxes and other amounts on deposit with the Fiscal Agent. See "SECURITY FOR THE SERIES 2003A BONDS" and "SPECIAL RISK FACTORS."

Summary of Formation Proceedings

Pursuant to the Act, the Board, acting as the legislative body of the District, adopted a resolution on April 25, 1989, stating its intention to establish the District and the Improvement Area and to authorize the levy of Special Taxes within the boundaries of the Improvement Area to pay principal of, and interest on, the Series 2003A Bonds and stating its intent to have the District incur a bonded indebtedness in the Improvement Area in an amount not to exceed \$15,000,000. Following public hearings, conducted pursuant to the provisions of the Act, the County adopted a resolution on June 8, 1989 (the "Resolution of Formation"), establishing the District and the Improvement Area and determining the necessity to have the District incur up to \$15,000,000 of bonded indebtedness for the Improvement Area. The Resolution of Formation called for a special election of the qualified electors in the Improvement Area to consider propositions to authorize the levy of the Special Tax and incur the bonded indebtedness. At a special election held on June 9, 1989, the sole owner of the property within the boundaries of the Improvement Area authorized the District to incur a bonded indebtedness in an amount not to exceed \$15,000,000 for the Improvement Area and approved the Rate and Method of Apportionment of the Special Tax. At a special election held on July 9, 2002, the sole owner of the property within the boundaries of the Improvement Area authorized the District to reduce the maximum bonded indebtedness from \$15,000,000 to \$9,000,000 and approved the Amended and Restated Rate and Method of Apportionment of the Special Tax. See Appendix C – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR THE IMPROVEMENT AREA."

Amended and Restated Rate and Method of Apportionment of Special Tax

The Amended and Restated Rate and Method of Apportionment of Special Tax generally provides that residential property will be taxed on the basis of the square footage per unit and on whether the unit is a single family detached unit, single family attached unit or apartment, while commercial/industrial property will be taxed on the basis of acreage.

The Amended and Restated Rate and Method of Apportionment of Special Tax classifies property to be taxed into developed property, which is all Assessor's Parcels in the Improvement Area for which a building permit has been issued as of May 1 of the preceding fiscal year ("Developed Property"); provided, however, that Developed Property shall not include Other Taxable Property as defined in the Amended and Restated Rate and Method of Apportionment of Special Tax and undeveloped property, which is all other taxable property not classified as Developed Property or Other Taxable Property ("Undeveloped Property").

The Amended and Restated Rate and Method of Apportionment of Special Tax sets out a five-step process by which the Board of Supervisors of the County will be able to determine the correct amount of money to be collected from the Taxable Property in the District for that fiscal year. This amount will be used to pay for current debt service on the District's indebtedness, create or replenish necessary reserve funds, pay administrative expenses, provide for amounts necessary for construction or acquisition of public facilities, and to account for reasonably anticipated delinquent Special Taxes. Subject to the Maximum Special Tax, the Board of Supervisors will follow the five-step process until the amount of the Special Tax levy equals the amount to be collected. See Appendix C – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR THE IMPROVEMENT AREA."

The Maximum Special Tax (as defined in Appendix C hereto) that may be levied on a parcel depends upon the varying uses of the land and, with respect to residential properties, the size of the residential unit. Developed Property may be taxed at the higher of (i) the Base Maximum Special Tax Rate (\$0.3526 per useable square foot) or (ii) the amounts determined by reference to Table A of Appendix C hereto. The special taxes shown on such Table A for residential properties will vary from a rate of \$550 per apartment unit to a rate of \$2,562 per unit for a single family detached dwelling with 2,700 square feet or more. The Table A special tax for commercial/industrial property is \$15,360 per acre of land. Undeveloped Property is subject to a Maximum Special Tax rate of \$20,315 per acre. For a more complete discussion of the varying tax rates, see Appendix C hereto.

The Special Taxes imposed by the District will be billed with property taxes and collected by the Treasurer. When received, such Special Taxes will be deposited with the Fiscal Agent to be held in the Special Tax Fund for the payment of Administrative Expenses and then for payment of debt service or for deposit in the Reserve Fund to restore the balance therein to the Reserve Requirement, subject to the Maximum Special Tax rates authorized by the qualified electors of the Improvement Area.

Although the Special Taxes will be levied against taxable parcels within the District, they do not constitute a personal indebtedness of the respective property owners. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See "SPECIAL RISK FACTORS."

Description of Authorized Facilities

The District is authorized to use the proceeds of the Series 2003A Bonds to acquire the following public improvements: (a) roads necessary for the development of the Improvement Area, including grading required for construction of the roads and related sewer lines and structures, storm drains, utilities and street lights, sidewalks, curbs and gutters, asphalt pavement and median curbs, and slope, median and parkway irrigation and landscaping; (b) bridge and thoroughfare district fees to be used to improve major thoroughfares; and (c) school facility fees and park improvements. The major portion of the proceeds of the Series 2003A Bonds will be applied to costs connected with grading, storm drain improvements, governmental fees and utilities. Currently, the storm drain channel is approximately 80% completed and is fully operational. The remaining improvements have been substantially completed. The balance of the improvements to be acquired with the proceeds of the Series 2003A Bonds is expected to be completed by September 2003.

Estimated Appraised Value-to-Lien Ratio

The value of the land within the Improvement Area is significant because in the event of a delinquency in the payment of Special Taxes the District may foreclose only against delinquent parcels. The property in the Improvement Area has been appraised at \$43,500,000 as of February 1, 2003. As of

February 1, 2003, all of the land within Improvement Area was owned by the Master Developer and certain merchant builders. See APPENDIX A – “SUMMARY OF APPRAISAL REPORT.” Dividing this appraised value by the principal amount of the Bonds of \$9,000,000* results in an estimated appraised value-to-lien ratio of 4.83-to-1* for the Improvement Area.

Tax Delinquencies

Under the provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Series 2003A Bonds are derived, will be billed to the properties within the Improvement Area on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. There have been no *ad valorem* or special assessment tax delinquencies within the Improvement Area.

See “SECURITY FOR THE SERIES 2003A BONDS – The Special Taxes” and “– Covenant for Superior Court Foreclosure” for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

Special Tax Levy

The Improvement Area is the final phase of the Stevenson Ranch community. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP – Stevenson Ranch” herein. For fiscal year 2002-2003, \$737,636.69 in Special Taxes were levied on parcels within the Improvement Area. The following tables show the Maximum Special Tax for each Tax Class and the Special Taxes expected to be paid for each Tax Class in the Improvement Area for fiscal year 2003-2004. Special Taxes are projected to be assessed in fiscal year 2003-2004 on Undeveloped Property in the amount of \$604,280.30, which is approximately 89% of the Special Taxes projected to be assessed in fiscal year 2003-2004.

* Preliminary, subject to change.

TABLE 3
PROJECTED SPECIAL TAX LEVY FOR FISCAL YEAR 2003-04

<u>Tax Class</u>	<u>Land Use Type</u>	<u>Unit Size</u>	<u>Maximum Annual Tax Rate⁽¹⁾</u>	<u>FY 2003-04 Projected Special Tax Rate</u>	<u>Number of Units or Acres⁽²⁾</u>	<u>FY 2003-04 Projected Total Special Tax Levy⁽³⁾</u>	<u>FY 2003-04 Projected Total Maximum Annual Taxes⁽¹⁾</u>
1	Single Family Detached	2,700 sq. ft. and above	\$2,562	\$ 2,229	22	\$ 49,037	\$ 56,364
2	Single Family Detached	2,400 – 2,699 sq. ft.	2,268	1,973	8	15,785	18,144
3	Single Family Detached	Fewer than 2,400 sq. ft.	2,117	1,842	6	11,051	12,702
4	Single Family Attached	N/A ⁽⁴⁾	1,289	0	0	0	0
5	Apartment	N/A ⁽⁴⁾	550	0	0	0	0
6	Commercial	N/A ⁽⁴⁾	15,360	0	0	0	0
0	Undeveloped	N/A ⁽⁴⁾	20,315	11,423	<u>52.902</u>	<u>604,281</u>	<u>1,074,700</u>
TOTAL					<u>36 Units</u>	<u>\$680,154</u>	<u>\$1,161,910</u>

Source: David Taussig & Associates, Inc.

⁽¹⁾ Maximum Special Tax shown for Undeveloped Property.

⁽²⁾ Total only includes residential units. Based on building permits issued as of March 1, 2003. Actual levy will be based on building permits issued as of May 1, 2003.

⁽³⁾ Total projected special taxes are equal to estimated debt service on the Series 2003A Bonds, administrative expenses in the amount of \$40,000, and estimated delinquencies at a rate of 5.0%.

⁽⁴⁾ Not applicable.

The following table sets forth a summary of current property ownership within the Improvement Area and the respective Projected Special Tax Levy for Fiscal Year 2003-2004.

TABLE 4
SUMMARY OF PROPERTY OWNERSHIP AND PROJECTED SPECIAL TAX LEVY
FOR FISCAL YEAR 2003-2004

<u>Owner⁽¹⁾</u>	<u>Projected Number of Units</u>	<u>Total % of Units</u>	<u>Projected FY 2003-04 Special Tax Levy⁽²⁾</u>	<u>% of Total Projected Levy</u>	<u>Projected FY 2003-04 Maximum Annual Taxes⁽³⁾</u>
FountainGlen Properties, LP	272	33.79%	\$85,556	12.58%	\$152,159
Greystone Homes, Inc.	140	17.39%	331,077	48.68%	541,084
Stevenson Ranch Venture, LLC	98	12.17%	83,728	12.31%	148,909
Villas of Stevenson Ranch, LLC	<u>295</u>	<u>36.65%</u>	<u>\$179,793</u>	<u>26.43%</u>	<u>\$319,758</u>
TOTALS	<u>805</u>	<u>100.00%</u>	<u>\$680,154</u>	<u>100.00%</u>	<u>\$1,161,910</u>

Source: David Taussig & Associates, Inc.

⁽¹⁾ Ownership as provided by Stevenson Ranch Venture, LLC, as of March 1, 2003.

⁽²⁾ Projected levy based on building permits issued as of March 1, 2003. Actual levy will be based on building permits issued as of May 1, 2003.

⁽³⁾ Based upon Maximum Annual Tax Rates applied to Developed Property and the Maximum Special Tax for Undeveloped Property.

The Master Developer expects that build-out in the Improvement Area will be complete in ____, [2005]. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Status in the Improvement Area." The following table shows the Maximum Special Tax for each Tax Class and the Special Taxes expected to be paid for each Tax Class in the Improvement Area at build-out.

**TABLE 5
PROJECTED SPECIAL TAX LEVY AT BUILD-OUT**

<u>Tax Class</u>	<u>Land Use Type</u>	<u>Unit Size</u>	<u>Maximum Annual Tax Rate⁽¹⁾</u>	<u>Projected Special Tax Rate</u>	<u>Number of Units or Acres</u>	<u>Projected Total Special Tax Levy⁽²⁾</u>	<u>Projected Total Maximum Annual Taxes</u>
1	Single Family Detached	2,700 sq. ft. and above	\$2,562	\$2,229	98	\$218,436	\$251,076
2	Single Family Detached	2,400 – 2,699 sq. ft.	2,268	1,973	24	47,356	54,432
3	Single Family Detached	Fewer than 2,400 sq. ft.	2,117	1,842	18	33,152	38,106
4	Single Family Attached	N/A ⁽³⁾	1,289	1,121	98	109,900	126,322
5	Apartment	N/A ⁽³⁾	550	479	567	271,310	311,850
6	Commercial	N/A ⁽³⁾	15,360	0	0	0	0
0	Undeveloped	N/A ⁽³⁾	20,315	0	<u>0.000</u>	<u>0</u>	<u>0</u>
TOTAL					<u>805 Units</u>	<u>\$680,154</u>	<u>\$781,786</u>

Source: David Taussig & Associates, Inc.

(1) Maximum Special Tax shown for Undeveloped Property.

(2) Total projected special taxes are equal to estimated debt service on the Series 2003A Bonds, administrative expenses in the amount of \$40,000, and estimate delinquencies at a rate of 5.0%.

(3) Not applicable.

Debt Service Coverage

The estimated debt service on the Series 2003A Bonds in 2003 through 2032 is \$606,146 per year. The estimated net amounts of revenues which would be derived in 2003 through 2032 if Special Taxes were levied and collected when due at the Maximum Special Tax rates permitted by the Amended and Restated Rate and Method of Apportionment of Special Tax on Developed Property are expected to be \$741,786 per year. Accordingly, the expected coverage ratio is estimated to be 1.22x per year. Merchant builders own parcels in the Improvement Area that are "Developed Property." It is estimated that Developed Property, as provided under the Amended and Restated Rate and Method of Apportionment, that is owned by merchant builders in the Improvement Area will pay approximately \$75,873 of Special Taxes in fiscal year 2003-2004. See "– Tax Delinquencies" above for information regarding delinquent Special Taxes.

THE DEVELOPMENT AND PROPERTY OWNERSHIP

General

The following information regarding proposed development and ownership of property in the Improvement Area has been provided by Stevenson Ranch Venture, LLC (the "Master Developer"). This information has been included because it may be considered relevant to an informed evaluation and analysis of the Series 2003A Bonds and the Improvement Area. In determining the investment quality of the Series 2003A Bonds, Bondowners should be aware that all of the Special Taxes will be paid by the Master Developer and merchant builders until such time as additional parcels are transferred to individuals. However, the inclusion in this Official Statement of the following information should not be construed to suggest that the Series 2003A Bonds or the Special Taxes that will be used to pay the Series 2003A Bonds are recourse obligations of the Master Developer or any owner of property within the Improvement Area. The Series 2003A Bonds and the Special Taxes do not constitute the personal indebtedness of the Master Developer or of any other landowners, including the merchant builders. The Series 2003A Bonds are secured solely by the Net Taxes and other amounts on deposit with the Fiscal Agent. See "SECURITY FOR THE BONDS" and "SPECIAL RISK FACTORS."

Stevenson Ranch

The Improvement Area comprises approximately 111.62 gross acres of a larger overall site consisting of approximately 4,000 gross acres of the master-planned community known as "Stevenson Ranch" located in the Santa Clarita Valley. The Improvement Area is located within an unincorporated portion of the Valencia/Newhall area adjacent to the city of Santa Clarita in the northwest corner of the County. Stevenson Ranch is approximately 35 miles from downtown Los Angeles and abuts the Interstate 5 Freeway. The undeveloped overall site was purchased in January 1978 by the Dale Poe Corporation from Two Pic Properties. The Master Developer acquired the area known as Stevenson Ranch in October 1996. In 2002, the Master Developer sold portions of the Improvement Area to three merchant builders, FountainGlen Properties, LP, Villas of Stevenson Ranch, LLC and Greystone Homes.

The Improvement Area is located in the foothills of the Santa Susana Mountains, at the mouth of Pico Canyon. Elevations range from approximately 1,325 to 1,350 feet and the site contains rolling topography. A flood control channel, which extends across the center of the property in an east/west direction, will address drainage issues at the site.

The Master Developer

Stevenson Ranch Venture, LLC is the Master Developer of the master-planned community known as "Stevenson Ranch" located in the Santa Clarita Valley. Stevenson Ranch has two improvement areas that have already been built and sold. Improvement Area A has 1,167 attached/detached housing units that have been built and sold. Improvement Area B has 1,627 detached housing units that have been built and sold. Improvement Area C is the final phase of the Stevenson Ranch community.

Stevenson Ranch Venture, LLC, a Delaware limited liability company, is a subsidiary of Lennar Corporation. Founded in 1954, Lennar Corporation is a nationally recognized homebuilding company with more than \$6 billion dollars in annual revenues. Lennar Corporation has within its Lennar Family of Builders twenty homebuilding name brands, including Lennar Homes, U.S. Home, Greystone Homes, Village Builders, Renaissance Homes, Winncrest Homes, Lundgren Brothers, Orrin Thompson Homes, Rutenberg Homes, NuHome, Patriot Homes, Sunstar Communities, Don Galloway Homes, Barry Andrews Homes, Cambridge Homes, The Genesee Company, Concord Homes, Summit Homes, Laureate Homes and

Seppala Homes. Combined, the Lennar Family of Builders has delivered more than 500,000 homes in eighteen states across the country.

Lennar Corporation is also a full service company with its Lennar Financial Services Division providing residential mortgage, title, closing and insurance services and its Strategic Technologies, Inc. providing high-speed Internet access, cable television and home monitoring services for Lennar homebuyers and other customers.

The Merchant Builders

FountainGlen Properties, LP. FountainGlen Properties, LP ("FountainGlen") is a Delaware limited liability company which owns and operates unassisted multifamily communities for active seniors in the western United States. FountainGlen was formed in February of 2001 as a spinoff of Pacific Gulf Properties Inc. On August 23, 2001, Pacific Gulf Properties Inc. merged with and into FountainGlen. FountainGlen currently owns or operates 2,522 apartment units within twelve active senior properties, eight of which are fully operational. The remaining four properties are in varying stages of construction or development. All of FountainGlen's properties are designed to fit the lifestyles of active seniors, and feature spacious clubhouses, fitness centers, pools, spas, libraries, courtyards and extensively scheduled social activities.

Villas of Stevenson Ranch, LLC. Villas of Stevenson Ranch, LLC ("Villas of Stevenson Ranch"), a Delaware limited liability company, is a subsidiary of LNR Property Corporation ("LNR"). LNR is listed on the NYSE as "LEN." LNR Property Corporation was spun-off from Lennar Corporation on October 31, 1997, as a stand-alone public company. Today LNR is a diversified real estate and finance company with a market capitalization of approximately \$1 billion. LNR's investment activities are primarily in real estate properties, real estate loans and real estate securities. LNR has been actively investing in commercial real estate for 33 years, and has been responsible for the successful development, redevelopment, repositioning and management of over 950 properties. As of August 31, 2002, LNR's domestic real estate portfolio, including properties held in unconsolidated partnerships, included approximately 7.2 million square feet of office, retail, industrial and warehouse space, 1.6 million square feet of ground leases, 2,200 hotel rooms and 13,700 apartments (11,100 in affordable housing communities), either completed, under development or under management.

Greystone Homes, Inc. Greystone Homes, Inc. ("Greystone"), a Delaware corporation, is a wholly-owned division of Lennar Corporation and is part of the Lennar Family of Builders.

Project Approvals

The Stevenson Ranch planned community was approved by the County Board of Supervisors in 1985 pursuant to Zone Change No. 83-075-(5) and by the County Regional Planning Commission in 1985 pursuant to Conditional Use Permit No. 2396-(5), Oak Tree Permit No. 83-0136-(5), and Housing Permit No. 85-001-(5). The approvals described above authorize the development of 4,370 residential dwelling units, 24 acres of commercial uses and various parks and other public improvements. Development of residential subdivisions in conjunction with adequate open space and support facilities such as schools is compatible with existing zoning laws and the General Land Use Plan for the area. The Improvement Area, together with Improvement Area A and Improvement Area B, encompasses Stevenson Ranch.

The Dale Poe Development Corporation and County entered into a Development Agreement effective July 21, 1990 (the "Development Agreement") pursuant to California Government Code Section 65864, et seq. (the "Development Agreement Law"). In October 1996, the Master Developer became the successor in interest to the Development Agreement which has now expired. Pursuant to the Development Agreement, the County agreed to approve the development of Stevenson Ranch consistent with

the above-described approvals and the rules, regulations and official policies and conditions of the County in force on the effective date of the Development Agreement, subject to certain future rules and regulations specified in the Development Agreement.

On April 25, 1990, the County approved Vesting Tentative Tract Map No. 33608 (the "Vesting Tentative Map") encompassing all of the Improvement Area. Under Government Code Section 66498.1, the approval of a vesting tentative map expressly confers a vested right to proceed with a development in substantial compliance with the County ordinances, policies and standards in effect at the time the application for approval of the vesting tentative map is complete. In September 2002, the Master Developer recorded Final Tract Map No. 33608-01 and in October 2002, the Master Developer recorded Final Tract Map No. 33608-02 creating the 149 lots and a remainder parcel on the portion of the Improvement Area presently in active development. The Master Developer has obtained all discretionary approvals required to complete construction of homes on the 149 lots for which final maps have been recorded and for the remainder of the Improvement Area. Notwithstanding that the Vesting Tentative Map, Development Agreement and other discretionary land use approvals have been obtained, no assurance can be given that such Vesting Tentative Map and approvals will ultimately exempt the Development from the provisions of future restrictions on land use and development and that, if applicable, such restrictions could cause significant delays and cost increases not currently anticipated. See "SPECIAL RISK FACTORS – Local, State and Federal Land Use Regulations" herein.

Environmental Review

The Board of Supervisors of the County approved and certified a Final Environmental Impact Report with respect to the Stevenson Ranch Project in compliance with the California Environmental Quality Act (Public Resources Code Section 21000, *et seq.* ("CEQA")) on February 21, 1990. Since then, the Board approved two separate addenda to the Final Environmental Impact Report with respect to subsequent development approvals. The most recent addendum was approved on September 25, 2001 and represented a substantially less intensive project. Additional environmental documentation for the project includes a mitigated negative declaration ("MND") for a school and an MND and a negative declaration for the widening of roads which comprise the southern and western boundaries of the project.

In September 1996, Leighton and Associates, Geotechnical Consultants, performed a Phase I environmental site assessment of the Improvement Area. The study revealed no evidence of recognized environmental conditions with respect to the Improvement Area and recommended that no additional environmental assessment was required.

It is possible, however, that future discretionary approvals which are necessary to complete the development of the property within the Improvement Area will necessitate further compliance with the requirements of CEQA. Challenges to such discretionary approvals could affect the rate of development within the Improvement Area.

On September 25, 2001, a lawsuit was filed by certain environmental organizations in Los Angeles County Superior Court against the Master Developer and the County which challenged the adequacy of the County's use of an EIR addendum dated September 25, 2001 and the proper imposition by the County of substantial mitigation measures in connection with certain oak tree permits issued to the County and the Master Developer. The lawsuit sought a temporary restraining order to prohibit the removal of certain oak trees. The court denied the temporary restraining order, the plaintiffs filed an amended petition and the court again denied the plaintiffs' request for a temporary restraining order. On May 6, 2002, the lower court ruled in favor of the County and the Master Developer. The plaintiffs appealed the court's decision in July 2002. The County filed its brief in March 2003 and resolution of the matter is expected in September 2003.

The nature of the pending litigation is such that it has not impacted the development or construction of facilities in the Improvement Area and to date, no restraining orders have been issued with respect to any aspect of development within the Improvement Area. The Improvement Area has already been substantially improved and developed such that any potential remedy in favor of the plaintiffs would be difficult to accomplish. The County and the District believe that the impending litigation does not impact the ability of the District to generate sufficient Special Taxes to pay debt service on the Series 2003A Bonds.

Development Status in Improvement Areas A and B of the District

The following is a brief description of the development status of Improvement Areas A and B within the District. **Special Taxes levied in Improvement Area A and Improvement Area B are not pledged as security for the Series 2003A Bonds.**

Improvement Area A. On September 13, 1989, the District issued \$20,020,000 of Improvement Area A Special Tax Bonds, Series 1989A for infrastructure improvements in or serving Improvement Area A. In addition, on May 1, 1997, the District issued \$18,575,000 of Improvement Area A Special Tax Bonds, Series 1997A. Improvement Area A has 1,167 attached or detached housing units that have been built and sold.

Improvement Area B. The District issued \$6,835,000 of the Improvement Area B Special Tax Bonds, Series 1989A and issued \$13,315,000 of the Improvement Area B Special Tax Bonds, Series 1995A. On December 5, 2000 the District issued \$24,465,000 Improvement Area B Special Tax Bonds, Series 2000A to refund the outstanding principal amounts of the Series 1989A Bonds and 1995A Bonds. On June 19, 2001 the District issued its \$16,215,000 Improvement Area B Special Tax Bonds, Series 2001A which were issued to provide financing for the acquisition and construction of a school site, school facilities and additional public improvements and facilities within Improvement Area B. Improvement Area B is comprised of six development tracts which consist of 1,627 single-family detached dwelling units that have been built and sold.

On February 21, 2003 a lawsuit was filed by a property owner in Improvement Area B against the District and the County which alleged that the County assessed properties in Improvement Area B to fund improvements outside of Improvement Area B, including within Improvement Area C. The lawsuit seeks replenishment of any funds spent on facilities outside of Improvement Area B from Improvement Area B taxes and to prohibit the County from spending any additional Improvement Area B taxes on facilities outside of Improvement Area B. The County expects to file its response to the complaint on March 26, 2003. Although the case is in the early stages of litigation, the County and the District anticipate raising viable defenses that are likely to eliminate or substantially reduce the potential impact, if any, on the development or construction of facilities in Improvement Area B. The County and the District also believe that the impending litigation does not impact the ability of the District to generate sufficient Special Taxes to pay debt service on the Series 2003A Bonds. The Special Taxes securing the Series 2003A Bonds are not pledged to any Improvement Area B Bonds and the Special Taxes securing Improvement Area B Bonds are not pledged to the Series 2003A Bonds.

Development Status in the Improvement Area

Master Developer has sold all of the lots in the Improvement Area to merchant builders except for the 98 town home units. The merchant builders intend to develop the property in the Improvement Area to consist of approximately 140 single family detached dwelling units estimated to range in size from 2,200 to 3,200 square feet per unit, 98 single family town home units estimated at 1,150 to 1,550 square feet per unit and 567 apartment units estimated at 600 to 1,100 square feet per unit. [_____ apartment units are designated as age-restricted and _____ apartment units are non-age restricted.] As of March 1, 2003, 36 building permits

have been issued and 149 final map lots have been approved. Construction has begun on two model complexes in the single-family home area. All of the home sites have either been completed or are in blue top condition. Final completion and sale of all units in the Improvement Area and the rental of all apartment units is expected to be completed by 2005. The first single-family homes are scheduled to be completed in May 2003 and are expected to sell for \$400,000 to \$550,000.

The Special Tax Consultant has calculated that based on ownership as of March 1, 2003, Greystone Homes, Inc. would be responsible for 49% of the projected \$680,154 Special Tax levy for the Improvement Area, Villas of Stevenson Ranch, LLC would be responsible for 26% of the projected Special Tax levy for the Improvement Area, FountainGlenProperties, LP would be responsible for 13% of the projected Special Tax levy for the Improvement Area and Stevenson Ranch Venture, LLC would be responsible for 12% of the projected Special Tax levy for the improvement Area.. As the development described below is completed and parcels are sold, it is expected that the ownership of the land within the Improvement Area will change and become more diversified. See "TABLE 4 – SUMMARY OF PROPERTY OWNERSHIP AND PROJECTED SPECIAL TAX LEVY FOR FISCAL YEAR 2003-2004."

The Master Developer and the other merchant builders in the Improvement Area may sell or otherwise dispose of the land within the Improvement Area or the development or any interest therein, or abandon the development, at any time. No assurance can be given that development will be completed, that it will be completed in a timely manner or in the configuration described herein. See "SPECIAL RISK FACTORS."

Continued development and construction in the Improvement Area may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and other similar factors. In addition, land development operations are subject to comprehensive federal, state and local regulations. There can be no assurance that land development operations within the District or the Improvement Area will not be adversely affected by future governmental policies or voter initiatives. See "SPECIAL RISK FACTORS."

Market Absorption Study

Empire Economics, Inc. has prepared a market absorption study for the Improvement Area, dated April 2002 and partially revised as of November 6, 2002. Based upon its analysis of the demographic-economic trends, the market demand supply conditions in the area and the designated financial market conditions, Empire Economics, Inc. concluded that residential units within the Improvement Area are expected to attain an absorption rate of 68 homes during 2003, 484 units during 2004 and the remaining 281 units in 2005. See Appendix B attached hereto for a summary of the market absorption study prepared by Empire Economics, Inc.

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Series 2003A Bonds. The discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Series 2003A Bonds, and the Official Statement should be read in its entirety for the purpose of making an informed investment decision. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failure to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Series 2003A Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District.

General Risks of Real Estate Investments

The Bondowners will be subject to the risks generally incident to an investment in real estate, including (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of homes in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including zoning laws) and fiscal policies; and (iii) natural disasters (including earthquakes and floods), which may result in uninsured losses.

No General Obligation of the County or District

The District's obligations under the Series 2003A Bonds and under the Indenture are limited obligations of the District and not of the County, and are payable equally and solely from Net Taxes and amounts in the Special Tax Fund, the Bond Service Fund, the Redemption Fund and the Reserve Fund. The Series 2003A Bonds are not general or limited obligations of the County, but are limited obligations of the District payable solely from the revenues and funds pledged therefor and under the Indenture. Neither the faith and credit of the District, the County or the State of California or any political subdivision thereof is pledged to the payment of the Series 2003A Bonds.

Appraised Values

The Appraisal was prepared for the purpose of estimating the market value of the fee simple interest in the land and any existing improvements in the Improvement Area as of February 1, 2003 and improvements proposed to be acquired or constructed by the Series 2003A Bonds. The Appraiser has also assumed that all governmental approvals necessary to complete the development of the Improvement Area as planned will be granted. No assurance can be given that all such governmental approvals will be obtained on the dates and to the degree assumed by the Appraiser. Should future conditions and events, such as growth control initiatives and government regulations, reduce the level of permitted development or delay the completion of the projected development, the value of the land would likely be reduced from that estimated by the Appraiser. See the "SUMMARY OF APPRAISAL REPORT" included as Appendix A hereto for a description of other assumptions made by the Appraiser. Accordingly, because the Appraiser arrived at an estimate of market value based upon certain assumptions which may or may not be fulfilled, no assurance can be given that should the parcels become delinquent due to unpaid Special Taxes, and be foreclosed upon and sold for the amount of the delinquency, that any bid would be received for such property or, if a bid is received, that such bid would be sufficient to pay such delinquent Special Taxes.

The Appraiser did not attempt to ascertain the fair market value of individual parcels of land in the Improvement Area because as of the date of the Appraisal all of the land was owned by one developer and, as such, the Appraiser considered the value of the Improvement Area to be the value of a single, undivided parcel. Property values are not likely to be evenly distributed throughout the Improvement Area; thus, certain parcels may have a greater value per acre than others. Consequently, no assurance may be given that the ratios shown under "SECURITY FOR THE SERIES 2003A BONDS – Land Values" would be consistent for different parcels within the Improvement Area. This disparity is significant because in the event of nonpayment of a Special Tax levy the only remedy is to foreclose against the delinquent parcel.

Under the Act, property within the Improvement Area that is delinquent may be sold for the amount of the delinquent Special Tax, plus penalties and interest thereon. A 10% penalty is charged after the date Special Taxes are due and interest accrues at 18% per annum from and after the July 1 following the delinquency date. Prospective purchasers of the Series 2003A Bonds should not assume that any property within the Improvement Area could be sold at a price equal to the appraised value or the assessed value at a foreclosure sale for delinquent Special Taxes or that any bid would be received for such property or, if a bid

is received, that such bid would be sufficient to pay such delinquent Special Taxes, including penalties and interest accrued at the statutory rate. The actual value of the property is subject to future events which might affect land values. Reductions in the Improvement Area land values could occur due to a downturn in the economy, relocation of employers out of the area, physical events such as presence of hazardous substances, earthquakes or floods or other events all of which would adversely impact the security underlying the Special Tax.

The District makes no representation or warranty as to the accuracy or completeness of the Appraisal Report and purchasers of the Series 2003A Bonds should review the complete Appraisal Report, a copy of which is on file with the Underwriter during the initial offering period for the Series 2003A Bonds.

Concentration of Ownership

The Master Developer developed the land within the Improvement Area for sale to other merchant builders and to construct attached and detached dwelling units for sale to the public. All properties within the Improvement Area except the townhomes have been sold by the Master Developer to three merchant builders, FountainGlen, Villas of Stevenson Ranch and Greystone. The Master Developer expects to sell the townhomes to another merchant builder. See "TABLE 4 – SUMMARY OF PROPERTY OWNERSHIP AND PROJECTED SPECIAL TAX LEVY FOR FISCAL YEAR 2003-2004." There will likely be additional transfers of ownership of the property within the Improvement Area prior to completion of development. However, until any such transfers occur, the timely payment of the Series 2003A Bonds depends on the willingness and ability of the Master Developer and the current merchant builders to pay the Special Taxes when due. Taxes on the property within the Improvement Area are current through the 2002-2003 Fiscal Year.

Local, State and Federal Land Use Regulations

Notwithstanding that the Development Agreement, Vesting Tentative Final Map and certain other land use approvals have been obtained for all parcels within the Improvement Area, no assurance can be given that such land use approvals will ultimately exempt the development within the Improvement Area from the provisions of future local restrictions on land use development. Under current State of California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. As of March 1, 2003, 36 building permits have been issued within the Improvement Area.

It is possible that future federal, state or local regulations, including voter initiatives for growth control, if enacted, and applicable to development within the Improvement Area, could negatively affect the ability of the current owners to complete the proposed development which is not expected to be completed for approximately two years. This possibility presents a risk to prospective purchasers of the Series 2003A Bonds in that an inability to complete the development within the Improvement Area as planned increases the Special Tax levied on the existing property owners and increases the likelihood that Special Taxes may need to be levied on Undeveloped Property. In such event, the inability or the unwillingness of a large property owner to pay its Special Taxes may increase the risks that the Series 2003A Bonds may not be repaid when due. Government Code Section 66474.3 authorizes a city or county to permit a development project to proceed in a manner consistent with an approved tentative map or vesting tentative map, notwithstanding the effect of a previously-enacted initiative measure, if the legislative body of the city or county finds that as a result of the initiative measure there is likely to be a default on land-secured bonds issued to finance infrastructure for the project. To date, there are no reported California Appellate Court decisions with respect to the constitutionality of Government Code Section 66474.3.

In arriving at an estimated value of the land within the District, the Appraiser has assumed that the land within the District will be developed as currently planned by the current owners. The owners of the Series 2003A Bonds should assume that any significant delay in construction or reduction in the permitted density of the planned development within the Improvement Area may cause the land values within the District to decrease significantly from those estimated by the Appraiser and as shown by the assessed valuations. A reduction in land values reduces the likelihood that in the event of a default in payment of Special Taxes a foreclosure action will result in adequate funds to repay the Series 2003A Bonds when due. See “– Appraised Values.”

In evaluating the investment quality of the Series 2003A Bonds, investors should assume that the possible enactment of more restrictive land use policies or regulations by the County, by a successor city or by voter initiative presents a substantial risk to the timely construction and completion of development within the Improvement Area, except with respect to units for which building permits have already been issued and substantial work and liabilities have been incurred in good faith reliance thereon prior to the date of adoption of any such land use regulations.

The failure to complete development within the Improvement Area as planned, or substantial delays in the completion of development within the Improvement Area due to litigation or other causes may reduce the value of the property within the Improvement Area, will increase the amount of Special Taxes to be paid by the owners of Undeveloped Property and may affect the willingness and ability of the owners of land within the Improvement Area to pay the Special Taxes when due. See “SECURITY FOR THE SERIES 2003A BONDS – Land Values.”

Land Development

Development of land within the Improvement Area is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, schools, parcels and street lighting, as well as local in-tract improvements and on-site grading and related improvements. There can be no assurance that these improvements will be constructed in a timely or cost effective manner to permit the completion of the development currently planned for the Improvement Area.

Failure to Develop Properties

Development of the land within the Improvement Area is ongoing. Grading was completed in January 2003, with either completed home sites or lots in blue top condition. As of March 1, 2003, 36 building permits were issued. Development of property within the Improvement Area may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the Master Developer, the merchant builders or any property owner to pay the Special Taxes when due. Development of land is also subject to economic considerations.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the Improvement Area to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in the Improvement Area as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the Improvement Area and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the Improvement Area to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. The Master Developer believes that it has obtained all discretionary approvals required to complete construction of homes on the 149 lots for which final maps have been recorded and for the remainder of the Improvement Area. Finally, development of land is subject to economic considerations.

The future development of the land within the Improvement Area may be adversely affected by existing or future governmental policies, or both, restricting or controlling the development of land in the Improvement Area. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP -- Environmental Review" for a discussion of certain limitations on the ability of the Master Developer and the merchant builders to complete the projected development within the Improvement Area.

There can be no assurance that land development operations within the Improvement Area will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in the Improvement Area would cause the property values within the Improvement Area to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the Improvement Area to pay the Special Taxes when due.

The payment of principal of and interest on the Bonds depends upon the receipt of Special Taxes levied on undeveloped property. Furthermore, an inability to develop the land within the Improvement Area as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on undeveloped property for a longer period of time than projected. Because all of the land within the Improvement Area is currently owned by the Master Developer, FountainGlen, Villas of Stevenson Ranch and Greystone, the timely payment of the Bonds depends upon the willingness and ability of the Master Developer and the other merchant builders to pay the Special Taxes levied on the undeveloped property when due. See "Concentration of Ownership" above. A slowdown or stoppage in the continued development of the Improvement Area could reduce the willingness and ability of the Master Developer or the other merchant builders to make Special Tax payments on Undeveloped Property and could greatly reduce the value of such property in the event it has to be foreclosed upon.

Hazardous Materials

The estimated appraised values referred to above do not take into account the possible reduction in marketability and value of any of the taxed parcels by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel or from any other conditions of the property, subsoil, or structures that would impact the development or use of the property. The District is not aware of any conditions of the property, subsoil, or structures, including any hazardous substance condition of the property within the Improvement Area that impacts the development of the property within the Improvement Area. In the event adverse conditions arise with respect to any of the taxed parcels from any of the foregoing conditions, whether now present or arising in the future, such adverse conditions could

significantly affect the development of a taxed parcel or the value thereof that is realizable at a foreclosure sale for delinquent Special Taxes.

Seismic Activity

The District is located in a seismically active region in Southern California. Active faults which could cause significant ground shaking in the District include, but are not limited to, the San Andreas Fault zone. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District. As a result, property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Improvement Area could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. The improvements within the Improvement Area have been built in accordance with applicable building codes, including requirements relating to seismic safety.

Additional and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. dated as of January 1, 2003. The Debt Report is included for general information purposes only. The District believes such information to be reliable but makes no representations as to its completeness or accuracy.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Improvement Area in whole or in part. Such long term obligations generally are not payable from property taxes, assessments or special taxes on land in the Improvement Area. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the District or other public agencies at any time.

TABLE 6
Direct and Overlapping Bonded Debt
(As of January 1, 2003)

LOS ANGELES COUNTY COMMUNITY FACILITIES DISTRICT NO. 3 - IMPROVEMENT AREA C

2002-03 Local Secured Assessed Valuation: \$10,895,739

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/03</u>
Los Angeles County	0.002%	\$ 730
Los Angeles County Flood Control District	0.002	283
Santa Clarita Community College District	0.059	12,759
Newhall School District	0.200	68,160
Los Angeles County Sanitation District No. 32	0.115	224
Los Angeles County Community Facilities District No. 3-C	100.	- ⁽¹⁾
Los Angeles County Regional Park and Open Space Assessment District	0.002	<u>7,895</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$90,051
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	0.002%	\$ 32,317
Los Angeles County Pension Obligations	0.002	35,040
Los Angeles County Superintendent of Schools Obligations	0.002	555
Los Angeles County Flood Control District Certificates of Participation	0.002	3,163
Santa Clarita Community College District General Fund Obligations	0.060	8,901
William S. Hart Union High School District Certificates of Participation	0.060	12,285
Newhall School District Certificates of Participation	0.202	3,426
Los Angeles County Sanitation District No. 32 Authority	0.115	<u>11,914</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$107,601
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		<u>1,665</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$105,936
 GROSS COMBINED TOTAL DEBT		\$197,652 ⁽²⁾
NET COMBINED TOTAL DEBT		\$195,987

⁽¹⁾ Excludes Mello-Roos Act bonds to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt.....	- %
Total Direct and Overlapping Tax and Assessment Debt.	0.83%
Gross Combined Total Debt.....	1.81%
Net Combined Total Debt.	1.80%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

Parity Taxes and Special Assessments

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. The District, however, has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the Improvement Area. Such additional indebtedness, if issued, would be required to satisfy applicable statutory requirements with respect to the issuance of such indebtedness. Further, the landowners within the Improvement Area may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments will have a lien on such property on parity with the Special Taxes. The imposition of additional indebtedness could reduce the willingness and the ability of the property owners within the Improvement Area to pay the Special Taxes when due. See “– Additional and Overlapping Debt” above. Except for the issuance of the Series 2003A Bonds, the District is not expected to issue any obligations payable in whole or in part from the Net Taxes other than refunding bonds. See “SECURITY FOR THE SERIES 2003A BONDS – Additional Bonds” herein.

Accordingly, the liens on the property within the Improvement Area could greatly increase without any corresponding increase in the value of the property within the Improvement Area and thereby reduce the ratio that exists at the time the Series 2003A Bonds are issued between the value of the property and the debt secured by the taxes and assessments thereon. The imposition of such additional indebtedness could also reduce the willingness and ability of the property owners within the Improvement Area to pay the Special Taxes when due.

Insufficiency of Special Taxes

Under the Amended and Restated Rate and Method of Apportionment of Special Tax, the annual amount of Special Tax to be levied on each taxable parcel in the Improvement Area will be based primarily on whether such parcel is developed and, for residential property, on the square footage per unit. See Appendix C and “THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax.” The Maximum Special Tax that could be collected annually from Developed Property for fiscal year 2003-2004 is estimated to be \$87,210. Pursuant to the Amended and Restated Rate and Method of Apportionment of Special Tax, the Special Tax could, however, be levied on Undeveloped Property up to the Maximum Special Tax rate of \$20,315 per acre if the Special Tax levied on Developed Property at the Maximum Special Tax rates therefore would not provide sufficient revenues to pay debt service on the Series 2003A Bonds.

The Amended and Restated Rate and Method of Apportionment of Special Tax specifies a five-step process for determining the amount of the Special Tax to be levied in order to equal the amount needed to be collected. Developed Property and Undeveloped Property will be taxed at certain amounts up to the Maximum Special Tax rates applicable, until the amount levied equals the amount needed. If more money is needed, then certain Undeveloped Property formerly exempt from taxation would become subject to the Special Tax up to the Maximum Special Tax rate until the Improvement Area fully meets its required debt service payments for the Series 2003A. All property to be taxed is categorized as either Developed Property or Undeveloped Property and becomes subject to tax at the beginning of each fiscal year (July 1). The first Special Tax levy occurred in fiscal year 2002-03. 38.98 acres of Undeveloped Property is exempt from the Special Tax, including an 8.42 acre school site, a 5.02 acre park site, 0.48 acres of open space property and 22.28 acres of basin and channel property. If any such property exceeds 38.98 acres, then the excess is initially exempt, but, in accordance with the current provisions of the Amended and Restated Rate and

Method of Apportionment of Special Tax, may be made subject to the Special Tax should the need arise. In the event the need does arise, the Bondowners will be dependent on the ability and/or willingness of a public entity, public utility and/or homeowner's association to pay the Special Tax levied on such property when due.

The Act provides that, if any property within the Improvement Area not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, or another public agency, subject to the limitation of the Maximum Special Tax Rate, the Special Tax will be reallocated to the remaining taxable properties within the Improvement Area. This could result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax. Moreover, if a substantial portion of land within the Improvement Area C became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Series 2003A Bonds when due and a default could occur with respect to the payment of such principal and interest. See Appendix C – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR THE IMPROVEMENT AREA" and "THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax."

No assurance can be given that the amount of Special Tax levied on property owners will be paid by such owners to provide sufficient amount of Special Tax to pay the annual debt service due on the Series 2003A Bonds. In the event that the Special Tax levied on Developed Property is insufficient, the Amended and Restated Rate and Method of Apportionment of Special Tax will operate first to tax Undeveloped Property and second to tax Developed Property up to the Base Maximum Special Tax. Both of the foregoing occurrences will result in property owners paying higher Special Taxes than currently anticipated which could have a negative impact on the willingness and ability of the owners of the property to pay such Special Taxes when due. For fiscal year 2003-2004, the Maximum Special Tax on Developed Property within the Improvement Area is expected to provide 0.14* times coverage on the debt service on the Series 2003A Bonds. See "THE IMPROVEMENT AREA – Debt Service Coverage." See also Appendix C – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR THE IMPROVEMENT AREA" and "THE IMPROVEMENT AREA – Amended and Restated Rate and Method of Apportionment of Special Tax."

Disclosures to Future Purchasers

The District has recorded a Notice of Special Tax Lien in the office of the County Recorder. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a home or commercial facility or the lending of money thereon. Effective July 1, 1993, California law requires that in the case of the transfer of real property subject to a continuing lien securing the levy of special taxes the seller must make a good faith effort to notify the prospective purchaser of the lien in a format prescribed by statute. Failure to disclose the existence of the Special Taxes may affect the

* Preliminary, subject to change.

willingness and ability of future owners of land within the Improvement Area to pay the Special Taxes when due.

Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within the Improvement Area is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The FDIC has filed claims against the County of Orange, California in the United States Bankruptcy Court and in Federal District Court contending, among other things, that special taxes are not ad valorem taxes, and therefore not payable by the FDIC, and any special taxes previously paid by the FDIC must be refunded. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on March 22, 1999, the United States Bankruptcy Appellate Panel of the Ninth Circuit affirmed the decision of the Bankruptcy Court. The County of Orange has appealed such ruling to the United States Court of Appeals for the Ninth Circuit and the FDIC has cross-appealed. The Ninth Circuit has not yet issued a ruling on the matter.

As of April 1, 2003, the FDIC did not own any property in the Improvement Area. The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the Improvement Area in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure

sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Series 2003A Bonds.

Bankruptcy

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Series 2003A Bonds. The payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays. See "SECURITY FOR THE SERIES 2003A BONDS – Covenant for Superior Court Foreclosure" for additional information.

In addition, the Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund and the Bond Service Fund from being applied to pay interest on the Series 2003A Bonds and/or to redeem such Series 2003A Bonds if bankruptcy proceedings were brought by or against the bankrupt owner of the parcel and if the court found that such owner had an interest in such moneys within the meaning of the Bankruptcy Code.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that ad valorem property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current ad valorem taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent on bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

The various legal opinions to be delivered concurrently with the delivery of the Series 2003A Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various

legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Funds Invested in the County Investment Pool

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a state statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such moneys could be traced. Following payment of the Special Taxes to the Treasurer, such funds may be invested in the name of the Fiscal Agent for a period of time in the County Investment Pool. In the event of a petition for the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Bondowners do not have a valid and/or prior lien on the Special Taxes where such amounts are deposited in the County Investment Pool and may not provide the Bondowners with a priority interest in such amounts. In that circumstance, unless the Bondowners could “trace” the funds that have been deposited in the County Investment Pool, the Bondowners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bondowners could successfully so “trace” the Special Taxes.

No Acceleration Provisions

The Series 2003A Bonds do not contain a provision allowing for the acceleration of the Series 2003A Bonds in the event of a payment default or other default under the terms of the Series 2003A Bonds or the Indenture. Pursuant to the Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies described under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default and Remedies.” So long as the Series 2003A Bonds are in book-entry form, DTC will be sole Bondowner and will be entitled to exercise all rights and remedies of Bondowners.

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION – Tax Exemption,” interest on the Series 2003A Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2003A Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Series 2003A Bonds are not subject to a special redemption and will remain Outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture.

Constitutional Limitations on Taxation and Appropriations

Article XIII A. On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, placed significant limits on the imposition of new *ad valorem* taxes, special taxes, transaction taxes and sales taxes. Section 4 of Article XIII A permits cities, counties and special districts, by a two-thirds vote of the qualified electors of the District, to impose special taxes, except for *ad valorem* taxes on real property or a transaction tax or sales tax on the sale of real property. The Special Tax is a special tax approved by the voters within the District in accordance with the procedures set forth in Section 4 of Article XIII A. The District has not pledged any taxes other than the Special Taxes to the repayment of the Series 2003A Bonds and, given the limitations on

ad valorem property taxes imposed by Article XIII A, does not have any ad valorem property taxes to repay the Series 2003A Bonds.

Article XIII A does permit the levy of ad valorem property taxes and the imposition of special assessments to pay interest and redemption charges on bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by voters voting at the election proposing the taxes or assessments. Were the voters to approve indebtedness payable from ad valorem taxes or assessments, those taxes or assessments would be on parity with the Special Taxes. See "SPECIAL RISK FACTORS – Additional and Overlapping Debt." Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A Litigation. In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to, among other things, limit a County assessor's ability to annually adjust for inflation to 2% per year. See "Constitutional and Statutory Limitations on Taxes and Appropriations-Article XIII A" herein. On December 27, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the "Orange County Litigation") that the Orange County Assessor raised a homeowner's assessment in violation of Article XIII A by increasing the assessment on the homeowner's property by more than 2% per year, when the price appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action and the case has been submitted to the State's Fourth District Court of Appeal. It is possible that the Court's decision will affect all counties in the State because all counties utilize the same method for determining property tax assessments.

A class action complaint seeking only declaratory relief and comparable to the one involved in the Orange County Litigation has been filed against the County for the 2000-2001 property tax levy. The County cannot predict the outcome of the Orange County Litigation or the landowner lawsuit against the County. If the Court's reasoning in the Orange County Litigation is applied generally, or if the decision in the County's lawsuit is consistent with the Orange County lawsuit, the loss of tax revenue to communities could be significant. Further, the County cannot predict the effect, if any, that the outcome of either the Orange County Litigation or the lawsuit against the County would have on property tax revenues to be received by the County, although the effect could be adverse.

Article XIII B. State and local government agencies in California and the State of California itself are subject to annual "appropriation limits" imposed by Article XIII B of the State Constitution. Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitations" are authorizations to spend "proceeds of taxes," which consist of tax revenues, certain state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as appropriations for debt service on indebtedness existing or authorized before January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, reasonable user charges or fees and certain other nontax funds. Since the Series 2003A Bonds constitute indebtedness authorized by the voters of the District, the District does not intend to treat the Special Taxes as "appropriations subject to limitation." Notwithstanding this fact, the Act permits, and the qualified elector in the District has approved, an appropriations limit.

Proposition 218 and the Initiative Power. On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Article XIII D of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes. The Special Tax was approved by at least a two-thirds vote of the qualified electors of the District voting at the time the Special Tax was proposed. The Special Tax is not subject to any voter approval provisions of Proposition 218.

Article XIII C of Proposition 218 expressly extended the initiative power to give California voters the power to reduce or repeal "local taxes, assessments, fees and charges" imposed by "local governments," regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State Constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extended the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to taxes, fees or assessments imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges, including the Special Taxes.

The present qualified electors in the District that might be able to propose or vote on an initiative to reduce or repeal the Special Taxes are not the same individuals who were the qualified electors of the District that initially approved the Special Taxes. Also, it is unclear whether the District is a "local government" or whether the Special Taxes are a "local tax" under Article XIII C of Proposition 218, so as to subject the Special Taxes to the retroactive initiative power. It is also unclear whether the District's mandatory, statutory duty to annually levy Special Taxes and the County Auditor's obligation to post the Special Tax installments to the property tax roll of the County, all as provided in the Indenture and the Act, are subject to the initiative powers provided for in Article XIII C of Proposition 218. The interpretation and application of these provisions of Proposition 218 will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. Accordingly, no assurance can be given that the qualified electors of the District will not, in the future, approve an initiative which reduces or repeals the Special Tax. Any reduction or repeal of the Special Tax may have an adverse effect on the ability of the District to pay the principal of and interest on the Series 2003A Bonds.

Future Legislation or Ballot Initiatives

Articles XIII A and XIII B and Propositions 98 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature which may place limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations, which may further affect the District's ability to collect Special Taxes.

Secondary Markets and Prices

The Underwriter will not be obligated to repurchase any of the Series 2003A Bonds, and no representation is made concerning the existence of any secondary market for the Series 2003A Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Series 2003A Bonds, and no assurance can be given that the initial offering prices for the Series 2003A Bonds will continue for any period of time.

Enforceability of Remedies

The remedies available to the Fiscal Agent and the Bondowners upon a default under the Indenture or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the Series 2003A Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the Series 2003A Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally. See “– Bankruptcy” above.

Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture and does not purport to be a complete restatement thereof. Reference is hereby made to the Indenture for the complete terms thereof. Copies of the Indenture are available from the District upon request for the cost of copying and delivery thereof.

Funds and Accounts

Special Tax Fund. The Fiscal Agent shall, on each date on which the Gross Taxes have been received by the Treasurer and deposited with the Fiscal Agent, deposit the Gross Taxes in the Special Tax Fund, such Gross Taxes to be held and transferred on the dates and in the amounts set forth in the Indenture and summarized below, in the following order of priority, to: (a) the Administrative Expense Fund; (b) the Bond Service Fund; and (c) the Reserve Fund. Any amounts remaining on deposit in the Special Tax Fund when there are no longer any Bonds Outstanding shall be transferred to the Rebate Fund, if necessary, and otherwise shall be transferred to the District and used for any lawful purpose under the Act.

Administrative Expense Fund. On or before the date amounts are needed to pay Administrative Expenses, the Fiscal Agent shall withdraw from the Special Tax Fund and place in the Administrative Expense Fund an amount necessary, together with amounts on deposit therein, to pay all Administrative Expenses. The Indenture defines Administrative Expenses as the ordinary and necessary costs of administering the levy and collection of the Special Taxes and all other administrative costs and incidental expenses related to the Series 2003A Bonds or the Special Taxes during a fiscal year, including, but not limited to, annual audit fees, Paying Agent fees, Escrow Holder fees, Verification Agent fees, Fiscal Agent fees, and fees incurred in connection with the calculation of arbitrage rebate due to the federal government. The Fiscal Agent shall pay the Administrative Expenses upon written instruction of the District. The Fiscal Agent shall transfer all amounts remaining on deposit in the Administrative Expense Fund on the final

maturity of the Series 2003A Bonds, after payment of any accrued Administrative Expenses, to the Special Tax Fund.

Bond Service Fund. The principal and interest due on the Series 2003A Bonds until maturity, otherwise than by optional or mandatory redemption, but including mandatory sinking fund payments, shall be paid by the Paying Agent from amounts transferred to the Bond Service Fund from the Special Tax Fund, after provision has been made for the payment of Administrative Expenses.

For the purpose of providing for the payment of principal of, and interest on, the Series 2003A Bonds when due, the Fiscal Agent shall withdraw from the Special Tax Fund and the Reserve Fund, to the extent required, and place in the Bond Service Fund an amount, together with amounts on deposit therein, equal to all of the principal (including mandatory sinking fund payments) and all of the interest due and payable on all of the Series 2003A Bonds on the next Interest Payment Date. On or before the Business Day prior to each Interest Payment Date, the Fiscal Agent shall pay to the Paying Agent an amount equal to the interest and principal due and payable on the Series 2003A Bonds on such Interest Payment Date. The Fiscal Agent shall transfer any moneys remaining in the Bond Service Fund when there are no longer any Series 2003A Bonds Outstanding to the Special Tax Fund.

Reserve Fund. The Indenture provides that in the Reserve Fund there shall be maintained an amount equal to the Reserve Requirement. Moneys in the Reserve Fund, including draws on the Reserve Facility, if any, shall be used solely for the purpose of paying the principal of and interest on the Series 2003A Bonds in the event that the moneys in the Bond Service Fund are insufficient therefor, and for that purpose the Fiscal Agent shall withdraw from the Reserve Fund, for deposit in the Bond Service Fund, moneys necessary for such purpose. If the amount on deposit in the Reserve Fund, including draws on the Reserve Facility, if any, is less than the Reserve Requirement, the Fiscal Agent shall notify the District of the amount needed to replenish the Reserve Fund to the Reserve Requirement and the District shall collect such deficiency either through including such amount in the next annual Special Tax levy, to the extent permitted by law and the Ordinance, or otherwise. If amounts on deposit in the Reserve Fund, including draws on the Reserve Facility, if any, are less than the Reserve Requirement, after making the required transfers to the Administrative Expense Fund and the Bond Service Fund, the Fiscal Agent shall transfer to the Reserve Fund from the first available moneys in the Special Tax Fund, an amount necessary to increase the balance therein to the Reserve Requirement. If on July 1 of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess to the Project Account or the Bond Service Fund, as provided in the Indenture. Moneys in the Reserve Fund shall be transferred to the Bond Service Fund on the final maturity of the Series 2003A Bonds and applied to the payment of principal of and interest on the last outstanding maturity of the Series 2003A Bonds.

Rebate Fund. The District is required to calculate the Rebate Requirement in accordance with the requirements set forth in the Indenture. Upon the District's written direction, an amount equal to the Rebate Requirement specified to the Fiscal Agent shall be deposited into the Rebate Fund by the Fiscal Agent from any available fund or account, so that the balance in the Rebate Fund after such deposit shall equal the Rebate Requirement for the Bond Year (as such terms are defined in the Tax Certificate and not as such term is defined in the Indenture) calculated as of the most recent computation date (as defined in the Tax Certificate). Computations of the Rebate Requirement shall be furnished by or on behalf of the District in accordance with the Tax Certificate. The Fiscal Agent shall have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the District.

Upon receipt of the District's written directions, the Fiscal Agent shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if on the first day of any Bond Year the amount credited to the Rebate Fund exceeds the Rebate Requirement as of such date, and the

District so directs, the Fiscal Agent will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the District's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Series 2003A Bonds and payment and satisfaction of any Rebate Amount shall be withdrawn and remitted to the District.

Redemption Fund. Prior to any redemption date, the Fiscal Agent shall deposit in the Redemption Fund moneys available for the purpose and sufficient to redeem, at the redemption prices payable as provided in the Indenture, the Series 2003A Bonds designated for redemption. Such moneys must be set aside in the Redemption Fund solely for that purpose and shall be transferred to the Paying Agent on or before the applicable redemption date and be applied by the Paying Agent on or after the redemption date to the payment of the redemption price on the Series 2003A Bonds to be redeemed upon presentation and surrender thereof. Any moneys remaining in the Redemption Fund when there are no longer Series 2003A Bonds Outstanding shall be transferred to the Special Tax Fund.

Acquisition Fund. The Fiscal Agent shall, within the Acquisition Fund, establish the following accounts: Project Account and Costs of Issuance Account. The Fiscal Agent shall disburse money from the Costs of Issuance Account on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case in accordance with a Payment Request Form together with invoices therefor. Any amounts remaining on deposit in the Costs of Issuance Account on the earlier of the date on which the District has notified the Fiscal Agent in writing that all Costs of Issuance have been paid or one year after the initial deposit of such amounts in the Costs of Issuance Account shall be transferred to the Project Account of the Acquisition Fund. The Fiscal Agent shall, from time to time, disburse moneys from the Project Account to pay Project Costs, in each case promptly after receipt of a written request from the District, together with invoices therefor, all as further provided in the Indenture.

Earnings Fund. The Fiscal Agent shall establish and maintain for the administration and control of investment earnings on District receipts an Earnings Fund, in which there shall be established an "Exempt Earnings Account" and a "Non-Exempt Earnings Account." The Fiscal Agent shall directly deposit the investment earnings of the Special Tax Fund, the Bond Service Fund and the Exempt Earnings Account into the Exempt Earnings Account of the Earnings Fund; and shall directly deposit investment earnings of the Acquisition Fund, the Reserve Fund and the Non-Exempt Earnings Account into the Non-Exempt Earnings Account of the Earnings Fund. From time to time at the request of the District, the Fiscal Agent shall transfer amounts in the Exempt Earnings Account to the Bond Service Fund. At the earlier of project completion or three years from the receipt of bond proceeds, the District shall direct the transfer for all amounts in the Non-Exempt Earnings Account accrued to the transfer date, less any actual or estimated amounts due to the Rebate Fund, to the Project Account of the Acquisition Fund. Following the earlier of project completion or three years from the receipt of bond proceeds, the District shall direct the transfer for all amounts in the Non-Exempt Earnings Account accrued to the transfer date, less any actual or estimated amounts due to the Rebate Fund, to the Project Account of the Bond Service Fund.

Investment of Moneys

Obligations purchased as investments of moneys in any fund or account in which investments are authorized shall be deemed at all times to be a part of such fund or account. Earnings on the investment of moneys on deposit in any fund or account established pursuant to the Indenture (except the Administrative Expense Fund and the Rebate Fund) shall be deposited to the Earnings Fund and applied pursuant to the Indenture. Earnings on the investment of any moneys on deposit in the Administrative Expense Fund or the Rebate Fund shall be held in each such fund or account. Subject to the restrictions set forth in the Indenture, moneys in said funds and accounts may be from time to time invested by the Fiscal Agent at the written direction of an authorized representative of the District, or if no such written direction is given, in any manner the Fiscal Agent deems appropriate, in Authorized Investments so long as:

(a) Moneys in the Acquisition Fund shall be invested in obligations which will by their terms mature as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition Fund;

(b) Moneys in the Administrative Expense Fund shall be invested in obligations which will by their terms mature no later than the date on which moneys must be available to meet scheduled payments of Administrative Expenses;

(c) Moneys in the Bond Service Fund shall be invested only in obligations which will by their terms mature on such dates so as to ensure the payment of principal and interest on the Series 2003A Bonds as the same become due; and

(d) Half of the moneys in the Reserve Fund may be invested in Authorized Investments which shall mature not more than two years from the date of purchase by the Fiscal Agent and the balance shall be invested in Authorized Investments which shall mature not more than five years from the date of purchase by the Fiscal Agent; provided no such investment shall mature later than the final maturity of the Series 2003A Bonds; provided further, if such investments may be redeemed at par on the Business Day prior to each Interest Payment Date, any amount of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Series 2003A Bonds.

Subject to the restrictions set forth in the Indenture relating to federal tax requirements, the Fiscal Agent shall sell at the best price obtainable or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer for such funds and accounts or from such funds and accounts.

“Authorized Investments” mean any legal investments of the District’s funds, which presently include the following:

(1) Bonds issued by the County, which are rated A/A, or better, by S&P and Moody’s, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(2) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(3) Registered warrants or treasury notes or bonds of the State which are rated A/A or better by S&P and Moody’s, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the State or by a department, board, agency or authority thereof;

(4) Bonds, notes, warrants or other evidences of indebtedness of any local agency within the State which are rated A/A or better by S&P and Moody’s, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency or authority of the local agency;

(5) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in

guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise;

(6) Bills of exchange or time drafts drawn on or accepted by a commercial bank, otherwise known as bankers' acceptances, which are eligible for purchase by the Federal Reserve System and are drawn on or accepted by a commercial bank the long-term debt obligations of which are rated A/A or better by S&P and Moody's (purchases of bankers' acceptances may not exceed 180 days maturity);

(7) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by S&P and Moody's (eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of \$500,000,000, and having an "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by S&P and Moody's, and purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation);

(8) Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association (as defined by section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank which are rated A/A or better by S&P and Moody's;

(9) Investments in repurchase agreements or reverse repurchase agreements of any securities enumerated above, if the Fiscal Agent shall have received a perfected first security interest in such securities securing such repurchase agreement and the Fiscal Agent shall hold such obligations free and clear of the claims of third parties and the securities securing such repurchase agreement or reverse repurchase agreement are required to be of such nature, valued at such intervals and maintained at such levels so as to meet the collateralization levels then required by S&P and Moody's for a rating of A/A or better. The terms "repurchase agreement" and "counterparty" shall have the meanings provided in the Indenture.

(10) Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (notes eligible for investment under this paragraph must be rated A/A or its equivalent by Moody's and S&P);

(11) Shares in money market funds which are rated Am or better by S&P, investing in the securities and obligations as authorized by paragraphs (1) to (10), inclusive, of this definition or which are rated A or better by S&P and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630) (to be eligible for investment pursuant to this paragraph (11) these money market funds shall either: (i) attain the highest rankings or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (ii) have an investment advisor registered with the Securities and Exchange Commission, if applicable, with not less than five years experience investing in the securities and obligations as authorized by paragraphs (1) to (10), inclusive, of this definition and with assets under management in excess of \$500,000,000; the purchase price of shares of beneficial interest purchase pursuant to this paragraph (11) shall not include any commission that these companies may charge);

(12) An Investment Agreement (as described in the Indenture);

(13) To the extent of moneys pledged to the payment of or security of the Series 2003A Bonds and held by a fiscal agent (including the Fiscal Agent), in any other prudent investment deemed prudent by the Treasurer; and

(14) Any legal investments of the District's funds authorized pursuant to Section 53601 of the California Government Code and consistent with the County of Los Angeles Investment Policy, including the County Investment Pool.

Covenants

The District has made the following covenants in the Indenture, among others, for the benefit of the Bondowners:

(a) The District will duly and punctually pay or cause to be paid the principal of and interest on every Series 2003A Bond issued under the Indenture to the extent Net Taxes are available therefor, in strict conformity with the terms of the Series 2003A Bonds and the Indenture and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture as it may be amended from time to time.

(b) Subject to the limitations on the rate of Special Taxes, the District shall levy or cause to be levied the Special Taxes in an amount anticipated to be sufficient (after taking into account anticipated delinquencies in the payment of Special Taxes), together with any moneys on deposit in the Special Tax Fund or the Bond Service Fund (and, with respect to the final Bond Year, in the Reserve Fund) and anticipated to be available in the next succeeding Bond Year, to pay principal of and interest on the Series 2003A Bonds, Administrative Expenses and any amounts required to maintain the Reserve Fund at the Reserve Requirement.

(c) If the Fiscal Agent determines at any time that the balance in the Reserve Fund is less than the Reserve Requirement as the result of the failure by one or more owners of real property to pay Special Taxes when due, the District shall commence and diligently prosecute to completion such foreclosure proceedings as may be necessary to restore the Reserve Fund balance to the Reserve Requirement.

(d) The District will keep proper books of records and accounts, separate from all other records and accounts of the County, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or the Bondowners of not less than 10% of the principal amount of the Series 2003A Bonds then Outstanding or their representatives authorized in writing.

(e) In order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Series 2003A Bonds, the District covenants in the Indenture to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the District agrees to comply with the Tax Certificate for each Series of Series 2003A Bonds issued thereunder, as each such Tax Certificate may be amended from time to time, as a source of guidance for compliance with such provisions. The Fiscal Agent and the Paying Agent each agree to comply with any written instructions received from the District which the District indicates must be followed in order to comply with the Tax Certificate. The Indenture provides that the tax covenants shall survive the payment, redemption or defeasance of the Series 2003A Bonds.

Conditions for the Issuance of Additional Bonds

Following the issuance of the Series 2003A Bonds additional bonds are permitted to be issued upon satisfaction of such conditions set forth in the Act, the Indenture, and such other conditions as the District may impose.

Supplemental Indentures

The District, the Paying Agent and the Fiscal Agent may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into such Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture (which Supplemental Indentures or agreements shall thereafter form a part of the Indenture) for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect; and

(c) to modify, alter, amend or supplement the Indenture for any reason in any other respect which is not materially adverse to the interests of Bondowners.

Exclusive of the Supplemental Indentures referred to above, the Bondowners of not less than 60% in aggregate principal amount of the Series 2003A Bonds then Outstanding shall have the right to consent to and approve the execution of such Supplemental Indentures as shall be deemed necessary or desirable for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture or agreement; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Series 2003A Bond, (b) a reduction in the principal amount of, or redemption price of, any Series 2003A Bond or the rate of interest thereon, (c) a preference or priority of any Series 2003A Bond or Bonds over any other Series 2003A Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Series 2003A Bonds the Bondowners of which are required to consent to such Supplemental Indenture, without the consent of the Bondowners of all Series 2003A Bonds then Outstanding. Nothing in the Indenture, however, shall be construed as making necessary the approval by Bondowners of the execution of any Supplemental Indentures or agreements.

Defeasance

The Indenture provides that if the District shall pay or cause to be paid, or there shall otherwise be paid, to the Bondowners of all Outstanding Series 2003A Bonds the interest due thereon, the principal thereof, at the times and in the manner stipulated in the Bonds and in the Indenture, then the Bondowners shall cease to be entitled to the pledge of Net Taxes, and all covenants, agreements and other obligations of the District to the Bondowners under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied, except the District's obligations to comply with the tax covenants in the Indenture. In the event that all Outstanding Bonds are defeased in accordance with the Indenture, the Fiscal Agent and the Paying Agent, as appropriate, shall execute and deliver to the District such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent and the Paying Agent, as

appropriate, shall pay over or deliver to the District all money or securities held by them pursuant to the Indenture which are not required for the payment of the interest due on, the principal due on such Series 2003A Bonds.

Series 2003A Bonds for the payment of which money shall have been set aside (through deposit by the District or otherwise) to be held in trust by the Paying Agent for such payment at the maturity date thereof shall be deemed, as of the date of such setting aside, to have been paid within the meaning and with the effect expressed in the above paragraph.

Any Outstanding Series 2003A Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this section above if (a) there shall have been deposited with the Paying Agent either money in an amount which shall be sufficient, or Federal Securities (as defined below) the principal of and the interest on which when paid will provide money which, together with the money, if any, deposited with the Paying Agent at the same time, shall be sufficient to pay when due the interest due and to become due on such Series 2003A Bonds on and prior to the maturity date thereof, the principal of such Series 2003A Bonds and (b) the District shall have given the Paying Agent in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Bondowners that the deposit required by (a) above has been made with the Paying Agent and that such Series 2003A Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date upon which money is to be available for the payment of the principal of such Series 2003A Bonds. The sufficiency of any such deposit, other than money alone, must be verified by the report of an independent certified public accountant.

Neither Federal Securities nor money deposited with the Paying Agent pursuant to the Indenture nor interest or principal payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the interest on and principal of such Series 2003A Bonds; provided that any cash received from such interest or principal payments on such Federal Securities deposited with the Paying Agent, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on and principal of such Series 2003A Bonds on and prior to such maturity thereof, and interest earned from such reinvestments shall be deposited in the Special Tax Fund. "Federal Securities" mean, subject to applicable laws, United States Treasury Obligations – State and Local Government Series ("SLGS") or other direct obligations issued by the United States Treasury for which the faith and credit of the United States are pledged for the payment of principal and interest; and obligations issued by banks for corporations, federal land banks, federal intermediate credit banks, federal home loan banks, and the Federal Home Loan Bank Board.

Events of Default and Remedies

The Indenture states that any one or more of the following events shall constitute an "Event of Default" thereunder:

(a) Default in the due and punctual payment of the principal of, or redemption premium, if any, on any Series 2003A Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Series 2003A Bond when and as the same shall become due and payable; or

(c) Default by the District in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Series 2003A Bonds contained (other than a payment

default referred to in subparagraph (a) and (b) above), and the continuation of such default for a period of 60 days after the District shall have been given notice in writing of such default by the Fiscal Agent; provided that if within 60 days the District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated.

Following the occurrence of an event of default, the Indenture provides that any Bondowner shall have the right for the equal benefit and protection of all Bondowners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his or her rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Bondowners as provided in the Indenture;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Bondowners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Indenture, or in the Series 2003A Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Series 2003A Bonds to the respective Bondowners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Bondowners to institute a suit to enforce such payment by virtue of the contract embodied in the Series 2003A Bonds and in the Indenture.

Paying Agent and Fiscal Agent

Under the terms of the Indenture, the District has appointed the Treasurer and Tax Collector of the County, as the Paying Agent and the Auditor-Controller of the County, as Fiscal Agent. The Treasurer has initially contracted with U.S. Bank National Association, to act as agent for the Paying Agent. The Paying Agent is authorized under the Indenture to and shall mail interest payments to the Bondowners, select Series 2003A Bonds for redemption, give notice of redemption and meetings of Bondowners, and maintain the Bond register. The Paying Agent is authorized to pay the principal on the Series 2003A Bonds when the same are duly presented to it for payment at maturity or on call and redemption, provide for the registration of transfer and exchange of Bonds presented to it for such purposes, provide for the cancellation of Series 2003A Bonds, all as provided in the Indenture, and provide for the authentication of Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture. The Paying Agent shall keep accurate records of all Series 2003A Bonds paid and discharged by it.

The Fiscal Agent is authorized under the Indenture to and shall maintain and administer the funds and accounts established pursuant to the Indenture. The Fiscal Agent shall keep accurate records of all funds administered by it.

The Paying Agent and Fiscal Agent initially appointed and any successor thereto may each be removed by the District and a successor or successors may be appointed. So long as any Series 2003A Bonds are Outstanding and unpaid the Paying Agent, the Fiscal Agent and any successor or successors thereto designated by the District shall continue to be Paying Agent and Fiscal Agent, respectively, of the District for all of said purposes until the designation of a successor or successors.

CONTINUING DISCLOSURE

Pursuant to the District Continuing Disclosure Undertaking, the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12 adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning the District and the Improvement Areas. The Annual Report to be filed by the District will include audited financial statements of the District, if any are prepared, and additional financial and operating data concerning the District as set forth in Section 4 of the Continuing Disclosure Undertaking attached hereto as APPENDIX E.

The Master Developer, on behalf of itself and any and each owner of land in the Improvement Area which owns land on which Special Taxes are assessed in an amount at least equal to 20% of the debt service on the Series 2003A Bonds, which are presently FountainGlen, Villas of Stevenson Ranch, and Greystone, will enter into the Developer Continuing Disclosure Undertaking in substantially the form attached in APPENDIX E hereto pursuant to which the Master Developer will covenant to provide an Annual Report not later than six months after the end of its fiscal year, commencing _____. The Annual Report provided by the Master Developer is to contain financial and operating data outlined in Section 4 of the Developer Continuing Disclosure Undertaking attached in APPENDIX E. The Developer Continuing Disclosure Undertaking shall terminate on the date that is the earlier of (i) the date the Series 2003 A Bonds are no longer outstanding, (ii) with respect to a merchant builder or other landowner, the date on which such merchant builder nor an affiliate thereof or landowner owns property in the Improvement Area which is responsible for 20 percent or more of the annual Special Tax levy, or (iii) the date on which all Special Taxes levied on the property within the Improvement Area are paid or prepaid in full. The Developer Continuing Disclosure Undertaking will inure solely to the benefit of the District, any Dissemination Agent, the Underwriter and owners or beneficial owners from time to time of the Series 2003A Bonds.

CONCLUDING INFORMATION

Underwriting

The Series 2003A Bonds are being purchased by UBS PaineWebber Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2003A Bonds at an aggregate purchase price of \$ _____. The Underwriter may offer and sell the Series 2003A Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Certain Legal Matters

Legal matters incident to the issuance of the Series 2003A Bonds will be subject to the final approving opinion of McFarlin & Anderson LLP, Lake Forest, California, substantially in the form contained in Appendix D. Certain legal matters will be passed upon for the District by County Counsel of the County, for the Master Developer by Pillsbury Winthrop LLP, Los Angeles, California, and for the Underwriter by Hawkins, Delafield & Wood, Los Angeles, California. The various legal opinions to be delivered concurrently with the delivery of the Series 2003A Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Tax Exemption

In the opinion of McFarlin & Anderson LLP, Bond Counsel, based on an analysis of existing law, regulations, ruling and court decisions, and assuming, among other matters, compliance with certain covenants and agreements, interest on the Series 2003A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A complete copy of the opinion of Bond Counsel is set forth in Appendix D and will be delivered with the Series 2003A Bonds.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest or obligations such as the Series 2003A Bonds. The District has covenanted to comply with certain restrictions designed to assure that the interest on the Series 2003A Bonds will not be included in federal gross income. Failure to comply with these covenants may result in the interest on the Series 2003A Bonds being included in federal gross income, possibly from the date of issuance of the Series 2003A Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine, or to inform any person, whether any actions are taken or omitted or events do occur after the date of issuance of the Series 2003A Bonds may affect the tax status of the interest on the Series 2003A Bonds.

Bond Counsel is further of the opinion that interest on the Series 2003A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that interest on the Series 2003A Bonds is included in a adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is of the opinion, based on an analysis of existing laws, regulations, rulings and court decisions, that the difference (if any) between the issue price of any maturity of the Series 2003A Bonds and the amount to be paid at maturity of such Series 2003A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2003A Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2003A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2003A Bonds is the first price at which a substantial amount of such maturity of the Series 2003A Bonds is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2003A Bonds accrues daily over the term to maturity of such Series 2003A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2003A Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Series 2003A Bonds. Owners of the Series 2003A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2003A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2003A Bonds) may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2003A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than McFarlin & Anderson LLP.

Although Bond Counsel has rendered an opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of

interest on, the Series 2003A Bonds may otherwise affect the recipient's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Litigation

On September 25, 2001, a lawsuit was filed by certain environmental organizations in Los Angeles County Superior Court against the Master Developer and the County which challenged the adequacy of the County's use of an EIR addendum dated September 25, 2001 and the proper imposition by the County of substantial mitigation measures in connection with certain oak tree permits issued to the County and the Master Developer. The lawsuit sought a temporary restraining order to prohibit the removal of certain oak trees. The Improvement Area has already been substantially improved and developed such that any potential remedy in favor of the plaintiffs would be difficult to accomplish. The County and the District believe that the impending litigation does not impact the ability of the District to generate sufficient Special Taxes to pay debt service on the Series 2003A Bonds. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Environmental Review."

On February 21, 2003 a lawsuit was filed by a property owner in Improvement Area B against the District and the County which alleged that the County assessed properties in Improvement Area B to fund improvements outside of Improvement Area B, including within Improvement Area C. The County and the District also believe that the impending litigation does not impact the ability of the District to generate sufficient Special Taxes to pay debt service on the Series 2003A Bonds. The Special Taxes securing the Series 2003A Bonds are not pledged to any Improvement Area B Bonds and the Special Taxes securing Improvement Area B Bonds are not pledged to the Series 2003A Bonds. See "THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development in Improvement Areas A and B – *Improvement Area B*."

The District is not aware of any litigation pending or threatened concerning the validity of the Series 2003A Bonds, the formation of the District or contesting the authority of the District to levy and collect the Special Taxes or contesting the District's authority to issue the Series 2003A Bonds.

Judicial Validation

On June 19, 1989, the County filed an action in the Superior Court of the State of California in and for the County of Los Angeles (No. C728049) for the judicial examination, approval and confirmation of the validity of all proceedings and relating to the validity of the special tax to be levied within each improvement area within the District and the issuance of the bonds to finance public facilities in and for the improvement areas within the District secured by special taxes levied with each such improvement area, pursuant to California Code of Civil Procedure Sections 860 through 870 inclusive and the Act. On August 2, 1989, a judgment was rendered providing, among other things, (i) that the Court has examined and inquired into the proceedings relating to the validity of the issuance of bonds to finance public facilities in and for the improvement areas within the District and the levy of certain special taxes within each such improvement area, and approved and confirmed the validity of all such proceedings and (ii) that all conditions, things and acts required by law to exist, happen or be performed prior to the adoption of an ordinance authorizing the levy of the aforementioned special taxes, including the adoption of the resolutions and voter approval of the special taxes, have existed, happened and been performed in the time, form and manner required by law.

Pursuant to Code of Civil Procedure Section 870, defendants, and each of them, are permanently enjoined from instituting any action challenging the validity of the bonds and/or the aforementioned special taxes. Defendants, and each of them, are also permanently enjoined from bringing any action against the

County with regard to the District, the bonds, the special taxes and/or raising any issue as to which the judgment is binding and conclusive.

Miscellaneous

All of the preceding summaries of the Indenture, other applicable legislation, agreements and documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Series 2003A Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The preparation and delivery of this Official Statement has been duly authorized by the Board, acting in its capacity as the legislative body of the District.

APPENDIX A
SUMMARY OF APPRAISAL REPORT

APPENDIX B
SUMMARY OF MARKET ABSORPTION STUDY

APPENDIX C
AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF THE
SPECIAL TAX FOR THE IMPROVEMENT AREA

APPENDIX D
FORM OF APPROVING OPINION OF BOND COUNSEL

Upon delivery of the Series 2003A Bonds, McFarlin & Anderson LLP, Lake Forest, California propose to issue its approving opinion in substantially the following form:

APPENDIX E
FORM OF CONTINUING DISCLOSURE UNDERTAKINGS

APPENDIX F BOOK-ENTRY-ONLY SYSTEM

The information in this Appendix F concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the County takes no responsibility for the completeness or accuracy thereof. The County cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2003A Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2003A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2003A Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix D. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2003A Bonds. The Series 2003A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Series 2003A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "GSCC," "MBSCC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003A Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations

providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2003A Bonds, except in the event that use of the book-entry system for the Series 2003A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2003A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2003A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series 2003A Bonds may wish to ascertain that the nominee holding the Series 2003A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2003A Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2003A Bonds by the County will reduce the outstanding principal amount of Series 2003A Bonds held by DTC. In such event, DTC will implement, through its book-entry system, redemption by lot of interests in the Series 2003A Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement redemption of the Series 2003A Bonds for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2003A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be

governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2003A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF THE COUNTY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2003A BONDS FOR REDEMPTION.

None of the County, the Trustee or the Underwriters can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2003A Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County, the Trustee or the Underwriters are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2003A Bonds or an error or delay relating thereto.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the County or the Trustee take any responsibility for the accuracy thereof.

None of the County, the Trustee or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2003A Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County, the Trustee or the Underwriter are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2003A Bonds or an error or delay relating thereto.

INDENTURE

DATED AS OF APRIL 1, 2003

Executed by

COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES

acting through the

BOARD OF SUPERVISORS OF THE
COUNTY OF LOS ANGELES,

as the legislative body,

and by the

TREASURER AND TAX COLLECTOR
OF THE COUNTY OF LOS ANGELES,

as the Paying Agent

and by the

AUDITOR - CONTROLLER
OF THE COUNTY OF LOS ANGELES

as the Fiscal Agent

Community Facilities District No. 3
(Valencia/Newhall Area)
of the County of Los Angeles
Improvement Area C
Special Tax Bonds, Series 2003A

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS

Section 1.01. Definitions	4
Section 1.02. Rules of Construction	12
Section 1.03. Authorization	12

ARTICLE II

THE BONDS

Section 2.01. Authorization	13
Section 2.02. Type and Nature of Bonds	13
Section 2.03. Equality of Bonds, Pledge of Net Taxes	13
Section 2.04. Description of Bonds; Interest Rates	14
Section 2.05. Form of Bonds and Certificate of Authentication and Registration	15
Section 2.06. Execution and Authentication	15
Section 2.07. Registration of Exchange or Transfer	15
Section 2.08. Mutilated, Lost, Destroyed or Stolen Bonds	15
Section 2.09. Temporary Bonds	16
Section 2.10. Bond Register	16
Section 2.11. Unclaimed Money	16
Section 2.12. Nonpresentment of Bonds	17
Section 2.13. Conditions for the Issuance of Additional Bonds	17
Section 2.14. Procedure for the Issuance of Bonds	18
Section 2.15. Book-Entry System	19

ARTICLE III

REDEMPTION OF BONDS

Section 3.01. Optional Redemption	22
Section 3.02. Mandatory Sinking Fund Redemption	22
Section 3.03. Selection of Bonds for Redemption	23
Section 3.04. Notice of Redemption	23
Section 3.05. Partial Redemption of Bonds	24
Section 3.06. Effect of Notice and Availability of Redemption Price	24

ARTICLE IV

FUNDS AND ACCOUNTS

Section 4.01. Funds and Accounts	26
Section 4.02. Disposition of Bond Proceeds	26
Section 4.03. Special Tax Fund	27
Section 4.04. Administrative Expense Fund	27
Section 4.05. Bond Service Fund	27
Section 4.06. Reserve Fund	28
Section 4.07. Acquisition Fund	28
Section 4.08. Rebate Fund	29
Section 4.09. Redemption Fund	30
Section 4.10. Earnings Fund	30

ARTICLE V

INVESTMENTS

Section 5.01. Investments	31
---------------------------------	----

ARTICLE VI

COVENANTS

Section 6.01. Punctual Payment	32
Section 6.02. Limits on Additional Debt	32
Section 6.03. Levy of Special Tax	32
Section 6.04. Commencement of Foreclosure Proceedings	32
Section 6.05. Books and Accounts	32
Section 6.06. Tax Covenants	32
Section 6.07. General	33
Section 6.08. Extension of Payment of Bonds	33
Section 6.09. Protection of Rights	33
Section 6.10. Completion of Project	33
Section 6.11. Continuing Disclosure	33
Section 6.12. No County Covenants	34

ARTICLE VII

PAYING AGENT AND FISCAL AGENT

Section 7.01. Paying Agent and Fiscal Agent	34
Section 7.02. Liability of Paying Agent and Fiscal Agent	34

ARTICLE VIII

DEFEASANCE

Section 8.01. Defeasance	35
--------------------------------	----

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.01. Supplemental Indentures without Bondowner Consent	36
Section 9.02. Supplemental Indenture with Bondowner Consent	36
Section 9.03. Notice of Supplemental Indenture to Bondowners	36

ARTICLE X

EVENTS OF DEFAULT; REMEDIES

Section 10.01. Events of Default	38
Section 10.02. Remedies of Owners	38
Section 10.03. Actions by Fiscal Agent as Attorney-In-Fact	39

ARTICLE XI

MISCELLANEOUS

Section 11.01. Cancellation of Bonds	40
Section 11.02. Execution of Documents and Proof of Ownership	40
Section 11.03. Provisions Constitute Contract	40
Section 11.04. Severability	41
Section 11.05. Notice	41
Section 11.06. Personal Liability	42
Section 11.07. Validity of Multiple Copies	42
Section 11.08. Headings	42
Section 11.09. Governing Law	42
Execution	42
EXHIBIT A FORM OF BOND	A-1
EXHIBIT B PAYMENT REQUEST FORM	B-1
EXHIBIT C ADMINISTRATIVE EXPENSE PAYMENT REQUEST FORM	C-1

INDENTURE

This Indenture (the "Indenture") dated as of April 1, 2003 is executed by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District") acting through the Board of Supervisors (the "Board of Supervisors") of the County of Los Angeles, State of California (respectively, the "County" and the "State") as the legislative body, by the Treasurer and Tax Collector of the County, as Paying Agent (the "Paying Agent") on behalf of the owners of the Bonds (as hereafter defined) and by the Auditor - Controller of the County, as Fiscal Agent (the "Fiscal Agent") on behalf of the owners of the Bonds.

WITNESSETH:

WHEREAS, following the adoption on April 25, 1989 of its Resolution of Intention and a duly called public hearing, the Board of Supervisors established the District and each of Improvement Areas A, B and C therein (each an "Improvement Area"), all pursuant to Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the California Government Code (the "Code"), known as the "Mello-Roos Community Facilities Act of 1982" (the "Act"), by its Resolution adopted on June 8, 1989, and, after an election duly held on June 9, 1989, adopted Ordinance No. 89-0107 on August 1, 1989 authorizing the levy of the special tax within each of the Improvement Areas of the District; and

WHEREAS, pursuant to a judgment entered in the case of County of Los Angeles v. All Persons, etc., et al. (Case No. C728049) in the Superior Court of the State of California in and for the County of Los Angeles on August 2, 1989, the issuance of bonds of the District to be paid by a special tax authorized under the Act, as amended, and collected within the Improvement Area with respect to which such bonds are issued, has been declared valid and consistent with Articles XIII A and XIII B of the Constitution of the State; and

WHEREAS, in response to a petition of the sole landowner within Improvement Area C of the District, the Board of Supervisors adopted on May 21, 2002 a Resolution declaring its intention to change the Rate and Method of Apportionment of Special Tax for Improvement Area C and to reduce the maximum amount of bonded indebtedness authorized to finance Improvement Area C facilities and calling a public hearing to consider the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and all other matters set forth in said Resolution and provide for an election of qualified electors, being the landowner within Improvement Area C, to approve the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and the reduction in authorized bonded indebtedness, all as set forth in said Resolution; and

WHEREAS, the public hearing was duly held on June 25, 2002 at which fewer than fifty percent (50%) of the qualified electors protested the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C and the reduction in authorized bonded indebtedness, and the Board of Supervisors called a special election to be held on July 9, 2002, at which election there was submitted to the qualified voters of Improvement Area C the following proposition:

PROPOSITION: Shall Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles be authorized to amend and restate the rate and method of apportionment of special tax as described in the “Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area C” attached as Exhibit A to “A Resolution of the Board of Supervisors of the County of Los Angeles acting as the Legislative Body of Community Facilities District No. 3 (Valencia/Newhall Area) Declaring its Intention to Change the Rate and Method of Apportionment of Special Tax for Improvement Area C,” adopted on May 21, 2002, which is incorporated by reference herein, and shall such special tax be levied to pay for authorized facilities, including the payment of current and future principal of and interest on authorized bonded indebtedness and the annual administration expenses of the County and the Community Facilities District in determining, apportioning, levying and collecting the special tax, and including the repayment of funds advanced to or on behalf of the Community Facilities District; and shall the maximum authorized bonded indebtedness that may be incurred to finance Improvement Area C facilities be reduced from \$15.0 million to \$9.0 million, but not more than an amount that is in compliance with County policies for land-secured financing; provided, that all other matters previously approved by the County and the qualified electors in the proceedings to establish Improvement Area C shall remain in full force and effect?

WHEREAS, more than two-thirds of the votes cast at the election were cast in favor of approving the Amended and Restated Rate and Method of Apportionment of Special Tax and of reducing the authorized bonded indebtedness within Improvement Area C of the District to an aggregate principal amount of not to exceed \$9,000,000, for the purposes set forth in the above Proposition; and

WHEREAS, following the election and receipt of a Certificate of the Results of the Election from the Registrar of the County of Los Angeles, the Board of Supervisors adopted on July 30, 2002 a resolution entitled “Resolution of the County of Los Angeles Acting as the Legislative Body of Community Facilities District No. 3 Determining the Results of a Special Election and Ordering Changes to the Rate and Method of Apportionment of Special Tax for Community Facilities District No. 3 Improvement Area C” and determined to levy a special tax on properties within Improvement Area C in accordance with the said Amended and Restated Rate and Method of Apportionment of Special Tax; and

WHEREAS, the Board of Supervisors has adopted on August 6, 2002, Ordinance No. 2002-0059, amending Ordinance No. 89-0107, authorizing the levy of a Special Tax in accordance with the Amended and Restated Rate and Method of Apportionment of Special Tax for Community Facilities District No. 3 Improvement Area C; and

WHEREAS, the District has not previously issued Bonds secured by land within Improvement Area C of the District; and

WHEREAS, pursuant to its Resolution adopted on April 1, 2003 the District has determined to issue up to \$9,000,000 aggregate principal amount of Improvement Area C Special Tax Bonds, Series 2003A (the “Bonds”) secured by a special tax levied within Improvement Area C to fund public

improvements and facilities, including roadway, flood control and related improvements, and fees representing such improvements and facilities, as authorized in the proceedings (the "Project"); and

WHEREAS, in order to provide for the authentication and delivery of the Bonds from time to time, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured, and to secure the payment of the principal thereof and premium (if any) and interest thereon, the District has authorized the execution and delivery of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the District, authenticated and delivered by the Paying Agent and duly issued, the valid, binding and legal limited obligations of the District, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture has been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

“**Act**” means the Mello-Roos Community Facilities Act of 1982, constituting Sections 53311 *et seq.* of the California Government Code, as amended.

“**Administrative Expenses**” mean the ordinary and necessary costs of administering the levy and collection of the Special Taxes and all other administrative costs and incidental expenses related to the Bonds or the Special Taxes, including but not limited to annual audit fees, Paying Agent fees, Fiscal Agent fees, fees incurred in connection with the calculation of arbitrage rebate due to the federal government and costs of compliance with disclosure obligations of the District.

“**Authorized Investments**” means any legal investments of the District’s funds, which presently include the following:

(1) Bonds issued by the County, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(2) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(3) Registered warrants or treasury notes or bonds of the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the State or by a department, board, agency or authority thereof;

(4) Bonds, notes, warrants or other evidences of indebtedness of any local agency within the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency or authority thereof;

(5) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise;

(6) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System (purchases of bankers acceptances may not exceed 180 days maturity);

(7) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided for by S&P and Moody’s (eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of \$500,000,000, and having an “A” or higher rating for the issuer’s debt, other than commercial paper, if any, as provided for by S&P and Moody’s, and purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation);

(8) Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association (as defined by section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank;

(9) Investments in repurchase agreements or reverse repurchase agreements of any securities enumerated above, if the Fiscal Agent shall have received a perfected security interest in such securities securing such repurchase agreement and the Fiscal Agent shall hold such obligations free and clear of the claims of third parties. For purposes of this definition, the term “repurchase agreement” means a purchase of securities pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount and will deliver the underlying securities by physical delivery or third-party custodial agreement. For the purposes of this subdivision, the term “counterparty” means the other party to the transaction. A counterparty bank’s trust department or safekeeping department may be used for physical delivery of the underlying security. The term of repurchase agreements shall be for one year or less. Such securities, for purposes of repurchase under this definition, shall mean securities of the same issuer, description, issue date and maturity;

(10) Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (notes eligible for investment under this paragraph must be rated “A/A” or its equivalent by Moody’s and S&P);

(11) Shares of beneficial interest issued by money market funds investing in the securities and obligations as authorized by paragraphs (1) to (10), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630) (to be eligible for investment pursuant to this paragraph (11) these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by paragraphs (1) to (10), inclusive, of this definition and with assets under management in excess of \$500,000,000; the purchase price of shares of beneficial interest purchased pursuant to this paragraph (11) may not include any commission that these companies may charge);

(12) An Investment Agreement;

(13) To the extent of moneys pledged to the payment of or security for the Bonds and held by a fiscal agent (including the Fiscal Agent), in any other investment deemed prudent by the Treasurer; and

(14) Any legal investments of the District's funds authorized pursuant to Section 53601 of the California Government Code and consistent with the County of Los Angeles Investment Policy, including the County Investment Pool.

"Authorized Representative of the District" means the Treasurer or any other person designated by such officer and authorized to act on behalf of the District under or with respect to this Indenture and all other agreements related hereto.

"Average Annual Debt Service" means the average over all Bond Years of the annual debt service from the date of the Bonds to their maturity, including:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year assuming the Bonds are retired as scheduled.

"Board of Supervisors" means the Board of Supervisors of the County of Los Angeles.

"Book-Entry Bonds" means Bonds of any Series registered in the name of the Nominee of a Depository as the Owner thereof pursuant to the terms and provisions of Section 2.15 hereof.

"Bond Counsel" means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the District.

"Bond Register" means the books which the Paying Agent shall keep or cause to be kept on which the registration and transfer of Bonds shall be recorded.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond is registered.

"Bond Year" means the period of twelve consecutive months ending on September 1 in any year during which Bonds are or will be Outstanding; provided, however, that the final Bond Year shall end on the date on which the Bonds are fully paid or redeemed.

"Bonds" means the Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, authenticated and delivered under this Indenture.

"Business Day" means any day other than a Saturday or a Sunday or a day on which financial institutions in the State of New York or in the State are required or authorized to close.

"Certificate of Completion" means a notice filed with the Fiscal Agent by an Authorized Representative of the District stating that the Project has been substantially acquired but preserving any rights the District may have with respect to the proper construction of the Project, to the District's final satisfaction.

"Code" means the Internal Revenue Code of 1986, as amended.

“Company” means the Stevenson Ranch Venture, LLC, a Delaware limited liability company.

“Continuing Disclosure Undertaking” shall mean that certain Continuing Disclosure Undertaking of the District dated as of April 1, 2003 relating to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with this Indenture, the Bonds and any and all other agreements, instruments, certificates or other documents issued in connection therewith; legal fees and expenses of counsel with respect to the financing of the Project; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent and the Paying Agent, if any (including without limitation, origination fees and first annual fees payable in advance); and other fees and expenses incurred in connection with the issuance of the Bonds or the implementation of the financing for the Project, to the extent such fees and expenses are approved by the District.

“County” means the County of Los Angeles.

“Depository” means the securities depository acting as Depository pursuant to Section 2.15 hereof, initially, the Depository Trust Company.

“Dissemination Agent” means the dissemination agent appointed by the District pursuant to the Continuing Disclosure Undertaking.

“District” means Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles.

“Federal Securities” means, subject to applicable law, United States Treasury notes, bonds, bills or certificates of indebtedness including United States Treasury Obligations - State and Local Government Series (“SLGS”) or other direct obligations issued by the United States Treasury for which the faith and credit of the United States are pledged for the payment of principal and interest; and obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, and the Federal Home Loan Bank Board.

“Fiscal Agent” means the Auditor-Controller of the County, acting as an officer of the District, and its designated agents or its successors and assigns, acting in the capacity of fiscal agent. The Auditor-Controller of the County is authorized to contract with any third party to perform the services of Fiscal Agent under this Indenture.

“Fiscal Year” means the twelve-month period ending on June 30 of each year, or any other annual accounting period hereafter selected and designated by the County as its Fiscal Year in accordance with applicable law.

“Funding and Acquisition Agreement” means the Funding and Acquisition Agreement made and entered into on June 27, 1989, by and between the District and the Company with respect to financing the acquisition or construction of the Project, as amended.

“Gross Taxes” mean (i) all Special Taxes and (ii) all proceeds from the sale of property collected pursuant to the foreclosure provisions of the Act and this Indenture for the delinquency of such Special Taxes.

“Improvement Area C” means the area so designated in the District and shown on the boundary map of the District recorded in the Office of the County Clerk and Recorder of the County of Los Angeles at Book 159 at Page 31 of Assessment Maps Los Angeles County, California on May 2, 1989 as Instrument No. 89-697399.

“Indenture” means this Indenture, as amended or supplemented pursuant to the terms hereof.

“Independent Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District and satisfactory to and approved by the Fiscal Agent (which shall be under no liability by reason of such approval) and who, or each of whom:

- (1) is in fact independent and not under the domination of the District;
- (2) does not have any substantial interest, direct or indirect, with the District; and
- (3) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

“Information Services” means: Financial Information, Inc.’s Financial Daily Called Bond Service; Interactive Data Corporation’s Bond Service; Kenny Information Service’s Called Bond Service; Moody’s Municipal and Government; or Standard & Poor’s Called Bond Record.

“Interest Payment Date” means each March 1 and September 1, commencing September 1, 2003.

“Investment Agreement” means one or more agreements entered into between the District, the Fiscal Agent and an entity or entities whose long-term debt or claims-paying ability is rated in either of the two highest categories (without regard to gradations of plus and minus within such categories) by S&P or Moody’s or an agreement between the District, the Fiscal Agent and an entity which is rated in either of the two highest categories (without regard to gradations of plus and minus within such categories) by S&P or Moody’s.

“Investment Property” means any security (as said term is defined in Section 165(g)(2)(A) or (B) of the Code), obligation, annuity or investment-type property, excluding, however, obligations the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of Bonds by totaling the following for each Bond Year:

- (1) The amount of all Outstanding Bonds payable in such Bond Year;

(2) The principal amount of any Bonds scheduled to be called and redeemed in such Bond Year; and

(3) The interest payable on the aggregate principal amount of Outstanding Bonds in such Bond Year if the Outstanding Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns except that if such corporation shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District and approved by the Fiscal Agent.

“Net Taxes” mean the amount of all Gross Taxes minus Administrative Expenses.

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.15 hereof.

“Tax Certificate” means, for each Series of Bonds, the Tax Certificate executed and delivered by the District on the date each such Series of Bonds is delivered.

“Ordinance” means the ordinance entitled “Amended Ordinance Authorizing The Levy Of A Special Tax Within Community Facilities District No. 3 (Valencia/Newhall Area) Of The County of Los Angeles,” adopted by the Board of Supervisors of the County on August 6, 2002.

“Outstanding” or **“Outstanding Bonds”** means all Bonds theretofore or thereupon being authenticated and delivered by the Paying Agent under this Indenture except:

(1) Bonds theretofore cancelled by the Paying Agent or surrendered to the Paying Agent for cancellation;

(2) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Paying Agent pursuant to this Indenture;

(3) From and after the date fixed for redemption, Bonds or portions thereof designated for redemption for which notice of redemption has been duly given and the amount necessary for redemption has been made available for that purpose; and

(4) Bonds for the payment or redemption of which funds or eligible securities in the necessary amount shall have theretofore been deposited with the Paying Agent in accordance with Section 8.01 hereof (whether on or prior to the maturity or redemption date of such Bonds).

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Undertaking.

“Paying Agent” means the Treasurer and its designated agents or its successor or assigns, acting in the capacity of registrar, paying agent and transfer agent. The initial designated agent for the Bonds is U.S. Bank, National Association, a national banking association, with a corporate trust office in Los Angeles, California. The Treasurer is authorized to contract with any third party to perform the services of Paying Agent under this Indenture. The District shall provide Bondowners with notice of any change in identity of the Paying Agent or of any third party authorized to perform the services of the Paying Agent.

“Payment Request Form” means a payment request form to be used in connection with the payment of Costs of Issuance or Project Costs, substantially in the form of Exhibit B attached hereto.

“Principal Office” means the principal office of the Paying Agent, located in Los Angeles, California.

“Project” means the acquisition, construction and equipping of certain real and other tangible property authorized in the Act with an estimated useful life of five years or longer, which is to be acquired or constructed in and/or for Improvement Area C, including, but not limited to, certain bridges and roadways, grading, sewers, storm drains, utilities, irrigation and landscaping, together with appurtenances, as more particularly described in Exhibit B to the Funding and Acquisition Agreement, as amended.

“Project Costs” mean all expenses of and incidental to the construction and/or acquisition of the Project.

“Rebate Certificate” means, for each Series of Bonds, the certificate delivered by the District upon the issuance of such Series of Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate as may be delivered by Bond Counsel from time to time.

“Record Date” means the fifteenth calendar day of the month preceding any Interest Payment Date.

“Representation Letter” means the letter of the District delivered to the Depository, required of any issuer of book-entry bonds setting forth the basis on which the Depository serves as depository for such book-entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

“Reserve Facility” means, a surety bond or other financial instrument acceptable to the Treasurer provided as part of the Reserve Fund to insure timely payment of the Bonds.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 10% of the stated principal amount (within the meaning of Section 148 of the Code) of each Series of Bonds, (b) Maximum Annual Debt Service on the Outstanding Bonds or (c) 125% of Average Annual Debt Service; *provided*, that any Reserve Facility shall be taken into account in calculating the balance on deposit in the Reserve Fund.

“Resolution of Formation” means the resolution entitled “Resolution Establishing Community Facilities District No. 3 of the County of Los Angeles, Providing for Special Taxes To Pay For Certain Public Facilities Within Each Improvement Area Within Such Community Facilities District And Calling a Special Election To Submit To The Qualified Electors Within Each Such Improvement Area The

Consolidated Question of Levying Such Special Taxes, Incurring A Bonded Indebtedness Secured By Such Special Taxes And Establishing An Appropriations Limit For Such District,” adopted by the Board of Supervisors of the County on June 8, 1989.

“Resolution Ordering Changes” means the resolution entitled “Resolution of the County of Los Angeles Acting as the Legislative Body of Community Facilities District No. 3 Determining the Results of a Special Election and Ordering Changes to the Rate and Method of Apportionment of Special Tax for Community Facilities District No. 3 Improvement Area C,” adopted by the Board of Supervisors of the County on July 30, 2002.

“S&P” means Standard and Poor’s Corporation, a corporation organized and existing under the laws of the State of New York, its successors and assigns except that if such corporation shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District and approved by the Fiscal Agent.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Facsimile transmission: (516) 227-4039 or (516) 227-4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South La Salle Street, Chicago, Illinois 60605, Facsimile transmission: (312) 663-2343; and Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Facsimile transmission: (215) 496-5058.

“Serial Bonds” means Bonds for which no mandatory sinking fund payments are provided.

“Series of Bonds” means all Bonds of like designation authenticated and delivered on original issuance at the same time pursuant to this Indenture or a Supplemental Indenture and any Bond or Bonds thereafter delivered in lieu of or as substitution for any of such Bonds pursuant to this Indenture.

“Special Taxes” mean the annual special taxes authorized under the Act to be levied on property lying within Improvement Area C, as described in the Amended and Restated Rate and Method of Apportionment of Special Tax attached as Exhibit A to the Resolution Ordering Changes, pursuant to the election referred to in the recitals of this Indenture and in accordance with the Act.

“State” means the State of California.

“Supplemental Indenture” means any Supplemental Indenture amending or supplementing this Indenture.

“Tax-Exempt” means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

“Term Bonds” means any Bonds of any Series so designated herein authorizing the issuance of such Series and for the retirement of which mandatory sinking fund payments have been established.

“Treasurer” means the Treasurer and Tax Collector of the County, acting as an officer of the District.

“Yield” shall mean that discount rate which when computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the purchase price of the obligation. With respect to each Series of Bonds, the Yield shall be the discount rate at which the present value of payments on such Series of Bonds is equal to the purchase price at par, less original issue discount and plus accrued interest.

Section 1.02. Rules of Construction. Words of the masculine gender shall be deemed to include correlative words of the feminine and neuter genders. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

Section 1.03. Authorization. The parties executing this Indenture hereby represent and warrant that they have full legal authority and are duly empowered to execute this Indenture, and have taken all action necessary to authorize the execution and delivery of this Indenture.

ARTICLE II

THE BONDS

Section 2.01. Authorization. The Bonds may be issued hereunder from time to time in order to obtain funds for the purpose of financing or refinancing the Project; provided that the aggregate principal amount of the Bonds which may be issued and Outstanding hereunder shall not exceed _____ million dollars (\$ _____). The Bonds may consist of one or more Series of varying denominations, dates, maturities, interest rates and other provisions as may be established pursuant hereto and to one or more Supplemental Indentures. The Bonds are designated generally as "Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds" each Series thereof to bear such additional designation as may be necessary to distinguish such Series from every other Series of Bonds.

Section 2.02. Type and Nature of Bonds. The Bonds and interest thereon, together with any premium paid thereon upon redemption, are not obligations of the County, but are limited obligations of the District secured by and payable from an irrevocable first lien on the Net Taxes. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the County is pledged for the payment of the Bonds or the interest thereon, and no Owner of the Bonds may compel the exercise of taxing power by the District or the County or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the District, the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien, or encumbrance, upon any of the District's property, or upon any of its income, receipts, or revenues, except the amounts which are, under Section 2.01 of this Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the Legislative Body of the District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Notwithstanding anything contained in this Bond Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or for the performance of any covenants herein contained. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.03. Equality of Bonds, Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds shall be equally payable from the Net Taxes without priority for number, issue date, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and moneys on deposit in the Special Tax Fund, the Bond Service Fund, the Redemption Fund, and the Reserve Fund which are hereby set aside for the payment of the Bonds. The Net Taxes shall constitute a trust fund held for the benefit of the owners of the Bonds to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplement.

Nothing in this Indenture or any Supplement shall preclude the redemption prior to maturity of any Bonds of any maturity of any Series subject to call and redemption and payment of said Bonds from proceeds

of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California.

Section 2.04. Description of Bonds; Interest Rates. An initial Series of Bonds is hereby created and such Bonds shall be designated "Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A." The Bonds shall be issued in fully registered form in authorized denominations of \$5,000 or any integral multiple thereof. The Bonds shall be issued in the aggregate principal amount of _____ dollars (\$_____) and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall bear interest at the rates as follows:

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2003	\$	%

20__ (maturity

Principal of, premium (if any) and interest on the Bonds shall be payable in lawful money of the United States of America. The principal of the Bonds and any premium due upon the redemption thereof shall be payable upon presentation and surrender thereof at maturity or earlier redemption at the Principal Office of the Paying Agent. Interest with respect to each Bond shall accrue from April __, 2003. Interest on any Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the dated date of the Bonds; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or from the dated date of the Bonds if no interest has been paid or made available for payment. Interest on any Bond shall be paid by check or draft of the Paying Agent mailed by first class mail, postage prepaid, to the person whose name shall appear in the Bond Register as the Owner of such Bond as of the close of business on the Record Date at the address which appears on the Bond Register; provided, however, that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon written request of such Owner to the Paying Agent 20 days prior to any Interest Payment Date, such interest shall be paid on the Interest

Payment Date in immediately available funds by wire transfer. Interest with respect to each Bond shall be computed using a year of 360 days comprised of twelve 30-day months.

The Bonds shall be subject to redemption as provided in Article III hereof.

Section 2.05. Form of Bonds and Certificate of Authentication and Registration. Except as otherwise provided in Section 2.09 and Section 2.15 hereof, the Bonds shall be printed from steel engraved or lithographic plates, and the Bonds and the certificate of authentication and registration thereon shall be substantially in the form attached hereto as Exhibit A and incorporated herein by this reference.

Section 2.06. Execution and Authentication. The Bonds shall be executed by the manual or facsimile signature of the Chair of the Board of Supervisors, and attested by the manual or facsimile signature of the Executive Officer-Clerk of the Board of Supervisors, and the seal of the County (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed have been authenticated and delivered by the Paying Agent (including new Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices.

The Bonds shall bear thereon a certificate of authentication and registration, in the form set forth in Exhibit A hereto, executed manually by the Paying Agent. Only such Bonds as shall bear thereon such certificate of authentication and registration shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication and registration shall have been duly executed by the Paying Agent.

Section 2.07. Registration of Exchange or Transfer. The registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at the Principal Office for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. The Paying Agent will not charge for any new Bond issued upon any exchange, but may require the Bondowner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Whenever any Bond or Bonds shall be surrendered for registration of transfer or exchange, the Paying Agent shall authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Paying Agent shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Section 2.08. Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond shall become mutilated, the Paying Agent shall authenticate and deliver a new Bond of like tenor, date, maturity and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Paying Agent shall be cancelled and delivered to or upon the order of the District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Paying Agent and, if such evidence is satisfactory to the

Paying Agent and, if an indemnity satisfactory to the Paying Agent shall be given, the Paying Agent shall authenticate and deliver a new Bond of like tenor and maturity, numbered and dated as the Paying Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued under the provisions of this section in lieu of any Bond alleged to have been lost destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds secured hereby. The Paying Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond to replace a Bond which has been mutilated, lost, destroyed or stolen, and which has matured or has been called for redemption, the Paying Agent may make payment with respect to such Bond upon receipt of indemnity satisfactory to the Paying Agent.

Section 2.09. Temporary Bonds. Any Bonds issued under this Indenture may be initially issued in temporary form exchangeable for definitive bonds. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the District and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed and sealed by the District and authenticated by the Paying Agent in substantially the same manner as provided in Section 2.06 hereof. If the District issues temporary Bonds it will have executed and will furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered for cancellation at the Principal Office of the Paying Agent and the District shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of the same interest rates and maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds issued hereunder.

Section 2.10. Bond Register. The Paying Agent will keep or cause to be kept, at the Principal Office, sufficient books for the registration and transfer of the Bonds which shall at all times during reasonable business hours be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred on the Bond Register, Bonds as herein provided.

The District and the Paying Agent may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of such Bond for any and all purposes, and the District and the Paying Agent shall not be affected by any notice to the contrary. The District and the Paying Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of each Bondowner to give written notice to the Paying Agent of any change in such Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.11. Unclaimed Money. All money which the Paying Agent shall have received from any source and set aside for the purpose of paying or redeeming any of the Bonds shall be held for the respective Owners of such Bonds, but any money which shall be so set aside or deposited by the Paying Agent and which shall remain unclaimed by the Owners of such Bonds for a period of three years after the date on which any payment or redemption with respect to such Bonds shall have become due and payable shall be transferred to the General Fund of the District; provided, however, that the Paying Agent, before making such payment, shall cause notice to be mailed to the Owners of such Bonds, by first class mail, postage prepaid, and by a single publication in The Bond Buyer not less than 90 days prior to the date of such payment to the effect that said money has not been claimed and that after a date named therein any unclaimed

balance of said money then remaining will be transferred to the General Fund of the District. Thereafter, the Owners of such Bonds shall look only to the General Fund of the District for payment and then only to the extent of the amount so received without any interest thereon.

Section 2.12. Nonpresentment of Bonds. Except as otherwise provided in Section 2.11 hereof, in the event any Bonds shall not be presented for payment when the principal thereof becomes due, if funds sufficient to pay such Bonds shall be held by the Paying Agent for the benefit of the Owners thereof, all liability of the District to the Owners thereof shall forthwith cease and be completely discharged and thereupon it shall be the duty of the Paying Agent to hold such funds (subject to Section 2.11 hereof), without liability for interest thereon, for the benefit of the Owners of such Bonds, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature with respect to such Bonds.

Section 2.13. Conditions for the Issuance of Additional Bonds. The District may at any time issue one or more Series of Bonds (in addition to the Bonds) payable from the proceeds of the Special Taxes as provided herein on a parity with all other Series of Bonds theretofore issued hereunder, but only subject to the following conditions, which are hereby made conditions precedent to the issuance of such Series of Bonds:

(a) The issuance of such Series of Bonds shall have been authorized under and pursuant to the Act and under and pursuant hereto and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) The purpose for which such Series of Bonds is to be issued; provided, that the proceeds of the sale of such Series of Bonds shall be applied solely for the purpose of providing funds (i) to pay costs of the acquisition and construction of the Project, including payment of costs incidental to or connected with such acquisition and construction or (ii) to refund any Bonds issued hereunder;

(2) The principal amount and designation of such Series of Bonds and the denomination or denominations of the Bonds of such Series;

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund payments are due, if any, for such Series of Bonds; provided, that (i) the Serial Bonds of such Series of Bonds shall be payable as to principal annually on September 1 of each year in which principal falls due, and the Term Bonds of such Series of Bonds shall have annual mandatory redemption on September 1, (ii) the bonds of such Series of Bonds shall be payable as to interest semiannually on March 1 and September 1 of each year, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve (12) months and the interest shall be payable thereafter semiannually on March 1 and September 1, (iii) all bonds of a Series of like maturity shall be identical in all respects, except as to number or denomination, and (iv) serial maturities of Serial Bonds or mandatory sinking fund payments for Term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Series of Bonds on or before their respective maturity dates;

(4) The redemption premiums and terms, if any, for such Series of Bonds;

(5) The form of the bonds of such Series;

(6) The amount to be deposited from the proceeds of sale of such Series of Bonds in the Reserve Fund; provided, that the Reserve Fund shall be increased at the time that such Series of Bonds becomes Outstanding to an amount at least equal to the Reserve Requirement, and an amount at least equal to the Reserve Requirement shall thereafter be maintained in the Reserve Fund;

(7) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(b) The District shall be in compliance with all agreements, conditions, covenants and terms contained herein and in all Supplemental Indentures required to be observed or performed by it;

(c) The District shall have received a certificate from one or more Independent Consultants which, when taken together, certify that (i) on the basis of the parcels of land and improvements existing in Improvement Area C as of the March 1 preceding the proposed issuance of the additional Series of Bonds, the amount of maximum Special Taxes that may be levied by the District pursuant to the Act, the Ordinance and the applicable resolutions of the District for each Bond Year that the Bonds will be Outstanding is at least 1.15 times Maximum Annual Debt Service on all Outstanding Bonds and the Series of Bonds proposed to be issued, and (ii) the fair market value of the land in Improvement Area C, including then existing improvements and any facilities to be constructed or acquired with the proceeds of the proposed Series of Bonds, as determined by an appraisal performed on a basis consistent with the appraisal prepared in connection with the issuance of the initial Series of Bonds, is at least 3.00 times the sum of (A) the aggregate principal amount of all Bonds then Outstanding, plus (B) the aggregate principal amount of the Series of Bonds proposed to be issued, plus (C) the aggregate principal amount of all assessment district bonds then outstanding and payable from assessments to be levied on parcels of land within Improvement Area C, plus (D) a portion of the aggregate principal amount of other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within Improvement Area C (the "Other CFD Bonds") equal to the aggregate principal amount of the Other CFD Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on parcels of land within Improvement Area C, and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of land (such fraction to be determined based upon the maximum special taxes which could be levied the year in which maximum annual debt service on the Other CFD Bonds occurs), based upon information from the most recent available Fiscal Year; for purposes of making the certifications required by this subparagraph (c), the Independent Consultants may rely on reports or certificates of such other persons as may be acceptable to the District, the County, Bond Counsel and the initial underwriter of the proposed Series of Bonds; and

provided, that nothing contained herein shall limit the issuance of any special tax bonds of the District payable from Special Taxes as provided herein if after the issuance and delivery of such special tax bonds none of the Bonds theretofore issued hereunder will be Outstanding.

Section 2.14. Procedure for the Issuance of Bonds. At any time after the sale of any Series of Bonds in accordance with the Act, such Series of Bonds shall be executed by the District for issuance

hereunder and shall be delivered to the Paying Agent and thereupon shall be authenticated and delivered by the Paying Agent, but only upon receipt by the Paying Agent of the following:

(a) A certified copy hereof or of the Supplemental Indenture authorizing the issuance of such Series of Bonds;

(b) A written request of the District as to the delivery of such Series of Bonds;

(c) An opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligation of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State such as the District); and (ii) the Bonds of such Series constitute valid and binding special tax obligations of the District payable solely from Net Taxes as provided herein and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State such as the District);

(d) The proceeds of the sale of such Series of Bonds; and

(e) Such further documents or money as are required by the provisions hereof or by the provisions of the Supplemental Indenture authorizing the issuance of such Series of Bonds.

Section 2.15. Book-Entry System. The Bonds shall be initially issued in the form of a single, fully registered Bond for each maturity (which may be typewritten). Upon initial issuance, the ownership of such Bond shall be registered in the Bond Register in the name of the Nominee identified below as nominee of The Depository Trust Company, New York, New York and its successors and assigns (the "Depository" or "DTC"). Except as hereinafter provided, all of the outstanding Bonds shall be registered in the Bond Register in the name of the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to this Section (the "Nominee").

With respect to the Bonds registered in the Bond Register in the name of the Nominee, neither the District nor the Fiscal Agent shall have any responsibility or obligation to any broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository (the "Participant") or to any person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, neither the District nor the Fiscal Agent shall have any responsibility or obligation (except as to the District, if it is at such time the Depository) with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than an Owner of a Bond as shown in the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the District redeems the Bonds in part, or (iv) the payment to any Participant or any other person, other than an Owner of a Bond as shown in the Bond Register, of any amount with respect

to principal of or interest on the Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each Bond is registered in the Bond Register as the holder and absolute Owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption, if applicable, and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The District shall pay all principal of and interest on the Bonds only to or upon the order of the respective Owner of a Bond, as shown in the Bond Register, or its respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner of a Bond, as shown in the Bond Register, shall receive a Bond evidencing the obligation of the District to make payments of principal and interest pursuant to this Indenture. Upon delivery by the Depository to the Owners of the Bonds and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

In order to qualify the Bonds for the Depository's book-entry system, the District shall execute and deliver to the Depository the Representation Letter in the form approved by the Depository. The execution and delivery of the Representation Letter shall not in any other way limit the provisions of this Section or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners of the Bonds, as shown on the Bond Register. In addition to the execution and delivery of the Representation Letter, the District shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify the Bonds for the Depository's book-entry program.

In the event (i) the Depository determines not to continue to act as securities depository for the Bonds, or (ii) the Depository shall no longer so act and gives notice to the District of such determination, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Bond, per maturity, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the Nominee, but shall be registered in whatever name or names Owners of the Bonds transferring or exchanging Bonds shall designate, in accordance with provisions of Section 2.07 hereof, and the District shall prepare and deliver Bonds to the Owners thereof for such purpose.

In the event of a reduction in aggregate principal amount of Bonds Outstanding or an advance refunding of part of the Bonds Outstanding, DTC, in its discretion, (a) may request the District to prepare and issue a new Bond or (b) may make an appropriate notation on the Bond indicating the date and amounts of such reduction in principal, but in such event the District records maintained by the Fiscal Agent shall be conclusive as to what amounts are outstanding on the Bond, except in the case of final maturity in which case the Bond must be presented to the Fiscal Agent prior to payment.

Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments of principal and interest with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository and acceptable to the District.

The initial Depository under this Article shall be DTC. The initial Nominee shall be Cede & Co., as Nominee of DTC.

ARTICLE III

REDEMPTION OF BONDS

Section 3.01. Optional Redemption. The Bonds maturing on or after September 1, 20__ may be redeemed prior to maturity, in whole or in part on any Interest Payment Date pro rata among maturities and by lot within a maturity from amounts on deposit in the Redemption Fund, at the option of the District on or after September 1, 20__ at the following redemption prices, expressed as a percentage of par value of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 20__ or March 1, 20__	%
September 1, 20__ or March 1, 20__	
September 1, 20__ and thereafter	

In the event that the District shall elect to redeem Bonds as provided in this Section, the District shall give written notice to the Paying Agent of its election to so redeem the Bonds, the redemption date and the principal amount of the Bonds to be redeemed. Such notice shall be given at least 30 days but no more than 60 days prior to the redemption date.

Section 3.02. Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20__ (the "20__ Term Bonds") shall be subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__, and on each September 1 thereafter to and including September 1, 20__ from mandatory sinking fund payments set aside in the Bond Service Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

<u>Redemption Dates</u> <u>(September 1)</u>	<u>Principal Amount</u>
20__	\$
20__	
20__	
20__	
20__	
20__	
20__ (maturity)	

The Bonds maturing September 1, 20__ (the "20__ Term Bonds") shall be subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__ and on each September 1 thereafter to and including September 1, 20__ from mandatory sinking fund payments set aside in the Bond Service

Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

Redemption Dates (September 1)	Principal Amount
20__	\$
20__	
20__	
20__	
20__	
20__	
20__ (maturity)	

In lieu of having the Fiscal Agent deposit cash with the Paying Agent as a mandatory sinking fund payment, the District shall have the option to tender to the Paying Agent for cancellation any amount of Term Bonds purchased by the District, which Term Bonds may be purchased by the District at public or private sale as and when and at such prices as the District may in its discretion determine. The par amount of any Term Bonds so purchased by the District and tendered to the Paying Agent in any twelve-month period ending on July 1 in any calendar year shall be credited towards and shall reduce the next mandatory sinking fund payments required to be made in the order in which they are required to be made pursuant to this Section 3.02.

Section 3.03. Selection of Bonds for Redemption. If less than all of the Outstanding Bonds are to be redeemed, the Paying Agent shall redeem the Bonds pro rata among maturities and by lot within a maturity, provided, however, that the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Paying Agent shall treat each such Bond as representing that number of Bonds of a \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Paying Agent shall promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption. In the event of a partial redemption of any Term Bonds, the mandatory sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of Term Bonds to be partially redeemed in inverse order of mandatory sinking fund redemption dates.

Section 3.04. Notice of Redemption. When redemption is required pursuant to the provisions of Article III, the Paying Agent shall give notice (the "Redemption Notice"), at the expense of the District, of the redemption of the Bonds. Such Redemption Notice shall specify: (i) the Bonds or designated portions thereof which are to be redeemed, (ii) the date of redemption, (iii) the place or places where the redemption will be made, including the name and address of any redemption agent, (iv) the redemption price, (v) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (vi) if less than all Bonds of a maturity are to be redeemed, the Bond numbers of the Bonds to be redeemed, and (vii) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall

further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable.

The Paying Agent shall take the following actions with respect to such Redemption Notice:

(i) At least 30 but not more than 45 days prior to the redemption date, such Redemption Notice shall be given to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register as of the close of business on the day before such Redemption Notice is given.

(ii) At least 35 days before the redemption date, such Redemption Notice shall be given by (A) registered or certified mail, postage prepaid, (B) confirmed facsimile transmission, or (C) overnight delivery service, to each of the Securities Depositories.

(iii) At least 35 days before the redemption date, such Redemption Notice shall be given by (A) registered or certified mail, postage prepaid, or (B) overnight delivery service, to one of the Information Services.

Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds. Each check or other transfer of funds issued by the Paying Agent for the purpose of redeeming Bonds shall bear to the extent specified the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 3.05. Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the Paying Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered, with the same interest rate and the same maturity. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the District and the Paying Agent shall be released and discharged thereupon from all liability to the extent of such payment.

Section 3.06. Effect of Notice and Availability of Redemption Price. Notice of redemption having been duly given, as provided in this Section, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(1) The Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture, anything in this Indenture or in the Bonds to the contrary notwithstanding;

(2) Upon presentation and surrender thereof at the Principal Office of the Paying Agent, such Bonds shall be redeemed at the redemption price;

(3) From and after the redemption date, the Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or portions thereof shall cease to bear further interest; and

(4) From and after the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

ARTICLE IV

FUNDS AND ACCOUNTS

Section 4.01. Funds and Accounts. The following funds and accounts are hereby created and established and shall be maintained by the Fiscal Agent for the administration and control of the Special Taxes and Bond Proceeds:

(1) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Acquisition Fund (the “Acquisition Fund”);

(2) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Special Tax Fund (the “Special Tax Fund”);

(3) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Reserve Fund (the “Reserve Fund”);

(4) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Administrative Expense Fund (the “Administrative Expense Fund”);

(5) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Bond Service Fund (the “Bond Service Fund”);

(6) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Rebate Fund (the “Rebate Fund”); and

(7) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Redemption Fund (the “Redemption Fund”).

(8) Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A, Earnings Fund (the “Earnings Fund”) in which there shall be an Exempt Earnings Account and a Non-exempt Earnings Account.

Pursuant to the Rebate Certificate, the funds and accounts established herein may be subdivided into sub-accounts for each Series of Bonds issued hereunder, in order to perform the necessary rebate calculations.

Section 4.02. Disposition of Bond Proceeds. The proceeds of the sale of the Bonds shall be received by the Fiscal Agent and deposited as follows:

(1) An amount equal to \$_____, representing the accrued interest and capitalized interest on the Bonds shall be placed in the Bond Service Fund;

(2) An amount equal to \$_____, representing the Reserve Requirement on the Closing Date shall be placed in the Reserve Fund;

(3) An amount equal to \$_____, representing the Costs of Issuance shall be placed in the Costs of Issuance Account of the Acquisition Fund;

(4) An amount equal to \$_____, representing the balance of the proceeds of the Bonds, shall be placed in the Project Account of the Acquisition Fund.

Section 4.03. Special Tax Fund. The Fiscal Agent shall, on each date on which the Gross Taxes have been received by the Treasurer and deposited with the Fiscal Agent, deposit the Gross Taxes in the Special Tax Fund, such Gross Taxes to be held and transferred on the dates and in the amounts set forth in the following Sections, in the following order of priority, to: (1) the Administrative Expense Fund; (2) the Bond Service Fund; and (3) the Reserve Fund. Any amounts remaining on deposit in the Special Tax Fund when there are no longer any Bonds Outstanding shall be transferred to the Rebate Fund, if necessary, and otherwise shall be transferred to the District and used for any lawful purpose under the Act.

Section 4.04. Administrative Expense Fund.

(a) On or before the date amounts are needed to pay Administrative Expenses, the Fiscal Agent shall withdraw from the Special Tax Fund and place in the Administrative Expense Fund an amount necessary, together with amounts on deposit therein, to pay all Administrative Expenses.

(b) Upon receipt of a duly executed Administrative Expense Payment Request Form in substantially the form attached hereto as Exhibit C and incorporated herein by this reference, the Fiscal Agent shall pay the Administrative Expenses. Administrative Expenses shall be paid directly to the person, corporation or entity entitled to payment hereunder and named as a Payee on the Administrative Expense Payment Request Form. Notwithstanding anything herein to the contrary, the Fiscal Agent may rely on an executed Administrative Expense Payment Request Form as complete authorization for any payments.

(c) The Fiscal Agent shall transfer all amounts remaining on deposit in the Administrative Expense Fund on the final maturity of the Bonds, after payment of any accrued Administrative Expenses, to the Special Tax Fund.

Section 4.05. Bond Service Fund. On or before February 20 and August 20 of each year, the Fiscal Agent shall withdraw from the Earnings Fund, the Special Tax Fund and the Reserve Fund to the extent required, and place in the Bond Service Fund an amount equal, together with amounts on deposit therein, to all of the principal (including mandatory sinking fund payments) and all of the interest due and payable on all of the Bonds on the next Interest Payment Date. On or before the Business Day prior to each Interest Payment Date, the Fiscal Agent shall pay to the Paying Agent an amount equal to the interest and principal due and payable on the Bonds on such Interest Payment Date.

The Fiscal Agent shall transfer any moneys remaining in the Bond Service Fund when there are no longer Bonds Outstanding, to the Special Tax Fund.

Section 4.06. Reserve Fund. There shall be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Moneys in the Reserve Fund, including draws on the Reserve Facility, if any, shall be used solely for the purpose of paying the principal of and interest on the Bonds in the event that the moneys in the Bond Service Fund are insufficient therefor, and for that purpose the Fiscal Agent shall withdraw from the Reserve Fund, for deposit in the Bond Service Fund, moneys necessary for such purpose. If the amount on deposit in the Reserve Fund, including the Reserve Facility, if any, is less than the Reserve Requirement, the Fiscal Agent shall notify the District of the amount needed to replenish the Reserve Fund to the Reserve Requirement and the District shall collect such deficiency either through including such amount in the next annual Special Tax levy, to the extent permitted by law and the Ordinance, or otherwise. If amounts on deposit in the Reserve Fund, including the Reserve Facility, if any, are less than the Reserve Requirement, after making the required transfers to the Administrative Expense Fund and the Bond Service Fund, the Fiscal Agent shall transfer to the Reserve Fund from the first available moneys in the Special Tax Fund an amount necessary to increase the balance therein to the Reserve Requirement. If on July 1 of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess to the Project Account or the Bond Service Fund, as provided in Section 5.01 hereof. Moneys in the Reserve Fund shall be transferred to the Bond Service Fund on the final maturity of the Bonds and applied to the payment of the principal of and interest on the last Outstanding maturity of the Bonds.

Section 4.07. Acquisition Fund.

(a) Within the Acquisition Fund, the Fiscal Agent shall establish the following accounts:

- (1) Project Account; and
- (2) Costs of Issuance Account.

(b) The Fiscal Agent shall disburse money from the Costs of Issuance Account on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case in accordance with a Payment Request Form together with invoices therefor. Any amounts remaining on deposit in the Costs of Issuance Account on the earlier of the date on which the District has notified the Fiscal Agent in writing that all Costs of Issuance have been paid or one year after the initial deposit of such amounts in the Costs of Issuance Account shall be transferred to the Project Account of the Acquisition Fund.

(c) The Fiscal Agent shall, from time to time, disburse moneys from the Project Account to pay the Project Costs, in each case promptly after receipt of a Payment Request Form together with invoices therefor; provided however, that all payments to the Company shall be made subject to the terms and provisions of the Funding and Acquisition Agreement, in particular Section 4(f) thereof.

(d) Costs of Issuance and Project Costs shall be paid directly to the person, corporation or entity entitled to payment hereunder and named as Payee on the applicable Payment Request Form. Notwithstanding anything herein to the contrary, the Fiscal Agent may rely on an executed Payment Request Form as complete authorization for any payments.

(e) Upon receipt of the Certificate of Completion, the Fiscal Agent shall transfer any remaining funds at the next Interest Payment Date to the Bond Service Fund and the Rebate Fund, as appropriate.

(f) Notwithstanding anything herein to the contrary, if on September 1, 20__, any proceeds of the Bonds remain on deposit in the Acquisition Fund, the Treasurer shall immediately invest such amounts in Tax-Exempt obligations at the direction of the District or shall restrict the Yield on such amounts such that the Yield on such amounts is not in excess of the Yield on the Bonds, unless in the opinion of Bond Counsel delivered to the District such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 4.08. Rebate Fund.

(a) The Fiscal Agent shall establish and maintain with respect to each Series of Bonds issued hereunder a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund (with such Series designation as may be appropriate). The provisions of this Section shall apply separately to the Rebate Fund established for each Series of Bonds. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Fiscal Agent in trust, to the extent required to satisfy the Rebate Amount (as defined in the Rebate Certificate), for payment to the United States of America. Neither the District nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts on deposit in the Rebate Fund shall be governed by this Section and by the Rebate Certificate. The Fiscal Agent shall be deemed conclusively to have complied with such provisions if it follows the directions of the District including supplying all necessary information in the manner provided in the Rebate Certificate, and shall have no liability or responsibility to enforce compliance by the District with the terms of the Rebate Certificate.

(b) Upon the District's written direction, an amount equal to the Rebate Requirement specified to the Fiscal Agent shall be deposited into the Rebate Fund by the Fiscal Agent from balances in the following funds and accounts and in the following order of priority: (i) from the Earnings Fund, (ii) from the Special Tax Fund, (iii) from the Acquisition Fund, and (iv) from the Reserve Fund, so that the balance in the Rebate Fund after such deposit shall equal the Rebate Amount for the Bond Year (as such term is defined in the Rebate Certificate and not as such term is defined in this Indenture) calculated as of the most recent Calculation Date (as defined in the Rebate Certificate). Computations of the Rebate Amount shall be furnished by or on behalf of the District in accordance with the Rebate Certificate.

(c) The Fiscal Agent shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under this Indenture or from other moneys provided to it by the District.

(d) The Treasurer shall invest all amounts held in the Rebate Fund at the written direction of the District in Authorized Investments, subject to the restrictions set forth in the Rebate Certificate. The Fiscal Agent shall retain all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Rebate Fund. Money shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the District's written directions, the Fiscal Agent shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if on the first day of any Bond Year the amount credited to the Rebate Fund exceeds the Rebate Requirement, and the District so directs, the Fiscal Agent will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the District's written directions. Any funds remaining in the Rebate Fund

after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount shall be withdrawn and remitted to the District.

(f) Notwithstanding any other provision of this Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section and the Rebate Certificate shall survive the defeasance or payment in full of the Bonds.

Section 4.09. Redemption Fund. Prior to any redemption date, the Fiscal Agent shall deposit in the Redemption Fund moneys available for the purpose and sufficient to redeem, at the redemption prices payable as provided in this Indenture, the Bonds designated for redemption. Such moneys must be set aside in the Redemption Fund solely for that purpose and shall be transferred to the Paying Agent on or before the applicable redemption date and be applied by the Paying Agent on or after the redemption date to the payment of the redemption price on the Bonds to be redeemed upon presentation and surrender thereof. Any moneys remaining in the Redemption Fund when there are no longer Bonds Outstanding shall be transferred to the Special Tax Fund.

Section 4.10. Earnings Fund. The Fiscal Agent shall establish and maintain for the administration and control of investment earnings on District receipts an Earnings Fund, in which there shall be established an "Exempt Earnings Account" and a "Non-Exempt Earnings Account." The Fiscal Agent shall directly deposit the investment earnings of the Special Tax Fund, the Bond Service Fund and the Exempt Earnings Account into the Exempt Earnings Account of the Earnings Fund; and shall directly deposit investment earnings of the Acquisition Fund, the Reserve Fund and the Non-Exempt Earnings Account into the Non-Exempt Earnings Account of the Earnings Fund. The Fiscal Agent shall at least annually transfer amounts in the Exempt Earnings Account to the Bond Service Fund. At the earlier of project completion or three years from the receipt of bond proceeds, the Fiscal Agent shall transfer all amounts in the Non-Exempt Earnings Account accrued to the transfer date, less any actual or estimated amounts due to the Rebate Fund, to the Project Account of the Acquisition Fund. Following the earlier of project completion or three years from the receipt of bond proceeds, the Fiscal Agent shall transfer at least annually all amounts in the Non-Exempt Earnings Account accrued to the transfer date, less any actual or estimated amounts due to the Rebate Fund, to the Bond Service Fund.

ARTICLE V
INVESTMENTS

Section 5.01. Investments. Obligations purchased as investments of moneys in any fund or account in which investments are authorized shall be deemed at all times to be a part of such fund or account. Earnings on the investment of moneys on deposit in any fund or account established pursuant to this Indenture (except the Administrative Expense Fund and the Rebate Fund) shall be deposited to the Earnings Fund and applied pursuant to Section 4.10 of this Indenture. Earnings on the investment of any moneys on deposit in the Administrative Expense Fund or the Rebate Fund shall be held in each such fund or account. Subject to the restrictions set forth herein, moneys in said funds and accounts may be from time to time invested by the Treasurer at the written direction of an Authorized Representative of the District, or if no such written direction is given, in any manner the Treasurer deems appropriate, in Authorized Investments so long as:

(a) Moneys in the Acquisition Fund shall be invested in obligations which will by their terms mature as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition Fund;

(b) Moneys in the Administrative Expense Fund shall be invested in obligations which will by their terms mature no later than the date on which moneys must be available to meet scheduled payments of Administrative Expenses;

(c) Moneys in the Bond Service Fund shall be invested only in obligations which will by their terms mature on such dates so as to ensure the payment of principal and interest on the Bonds as the same become due; and

(d) Half of the moneys in the Reserve Fund may be invested in Authorized Investments which shall mature not more than two years from the date of purchase by the Treasurer and the balance shall be invested in Authorized Investments which shall mature not more than five years from the date of purchase by the Treasurer; provided no such investment shall mature later than the final maturity of the Bonds; provided further, if such investments may be redeemed at par on the Business Day prior to each Interest Payment Date, any amount of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds.

Subject to the restrictions set forth in Section 6.06 hereof, the Treasurer shall sell at the best price obtainable or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer for such funds and accounts or from such funds and accounts. For the purpose of determining at any given time the balance in any fund or account, any such investments constituting a part of such fund and account shall be valued at their original cost. Notwithstanding anything herein to the contrary, the Treasurer shall not be responsible for any loss from any investments authorized pursuant to this Indenture.

ARTICLE VI

COVENANTS

Section 6.01. Punctual Payment. The District covenants that it will duly and punctually pay or cause to be paid the principal of, premium (if any) and interest on every Bond issued hereunder to the extent Net Taxes are available therefor, in strict conformity with the terms of the Bonds and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture as it may be amended from time to time.

Section 6.02. Limits on Additional Debt. The District covenants that it will not mortgage or otherwise encumber, pledge or place any charge upon any of the Gross Taxes, and will not issue any obligation or security superior to or, except as provided herein, on a parity with the Bonds, payable in whole or in part from the Net Taxes.

Section 6.03. Levy of Special Tax. Subject to the limitations on the rate of Special Taxes, the District shall levy or cause to be levied the Special Taxes in an amount anticipated to be sufficient (after taking into account anticipated delinquencies in the payment of Special Taxes), together with any moneys on deposit in the Special Tax Fund or the Bond Service Fund (and, with respect to the final Bond Year, in the Reserve Fund) and anticipated to be available, to pay principal of, premium (if any) and interest on the Bonds, Administrative Expenses and any amounts required to maintain the Reserve Fund at the Reserve Requirement.

Section 6.04. Commencement of Foreclosure Proceedings. If the Fiscal Agent determines at any time that the balance in the Reserve Fund is less than the Reserve Requirement as the result of the failure by one or more owners of real property to pay Special Taxes when due, the District shall commence and diligently prosecute to completion such foreclosure proceedings as may be necessary to restore the Reserve Fund balance to the Reserve Requirement.

Section 6.05. Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the County, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or of the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

Section 6.06. Tax Covenants. In order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Bonds, the District covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code in that the District agrees to comply with the Tax Certificate for each Series of Bonds issued hereunder, as each such Tax Certificate may be amended from time to time, as a source of guidance for compliance with such provisions. A copy of the Tax Certificate for the Bond is attached hereto as Exhibit D and is incorporated herein by reference. The Fiscal Agent and the Paying Agent each hereby agree to comply with any written instructions received from the District which the District indicates must be followed in order to comply with the Tax Certificate. This covenant shall survive the payment, redemption or defeasance of the Bonds.

Section 6.07. General. The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of this Indenture. The District warrants that upon the date of execution and delivery of the Bonds, all conditions, acts and things required by law and this Indenture to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Bonds do exist, have happened and have been performed and the execution and delivery of the Bonds shall comply in all respects with the applicable laws of the State.

Section 6.08. Extension of Payment of Bonds. The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto. Nothing herein shall be deemed to limit the right of the District to issue any securities for the purpose of providing funds for the redemption of the Bonds and such issuance shall not be deemed to constitute an extension of the maturity of the Bonds.

Section 6.09. Protection of Rights. The District will preserve and protect the security of the Bonds and the rights of the Owners against all claims and demands of all persons, and will faithfully perform and abide by all of the covenants, undertakings and provisions contained in this Indenture or in any Bond issued pursuant to this Indenture and will contest by court action or otherwise (a) the assertion by any officer of any government unit or any other person whatsoever against the District that (i) the Act is unconstitutional, (ii) the Special Tax is invalid, or (iii) the Special Taxes cannot be paid by the District for the debt service on the Bonds, or (b) any other action affecting the validity of the Bonds or diluting the security therefor, or (c) any assertion by the United States of America or any department or agency thereof or any other person that the interest received by the bondholders is includable in gross income for federal income tax purposes, to the extent there are Special Taxes available for such purpose.

Section 6.10. Completion of Project. The District shall diligently carry out and continue to completion with all practical dispatch the acquisition and/or construction of the Project in accordance with the Funding and Acquisition Agreement and the Act, but only to the extent of available Bond proceeds or Special Taxes, and will not amend the Project in any manner which would substantially impair the security of the Bonds or the rights of the Owners.

Section 6.11. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Undertaking. Notwithstanding any other provision of this Indenture, failure of the District to comply with its obligations under the Continuing Disclosure Undertaking shall not be considered an event of default under this Indenture, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Undertaking shall be an action to compel performance. Upon receipt of indemnification to its satisfaction, the Fiscal Agent shall at the request of any Participating Underwriter (as defined in the Continuing Disclosure Undertaking), or the Owners of a majority in aggregate principal amount of Outstanding Bonds or any Bondowner or Beneficial Owner take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owners," means any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Section 6.12. No County Covenants. The covenants contained herein are covenants of the District only and anything in this Article VI to the contrary notwithstanding, no covenant contained herein shall be deemed to have been made by the County, other than any such covenant it may have made in its capacity as legislative body of the District, Fiscal Agent or Paying Agent.

ARTICLE VII

PAYING AGENT AND FISCAL AGENT

Section 7.01. Paying Agent and Fiscal Agent. The District hereby appoints the Treasurer of the County as the Paying Agent and the Auditor - Controller of the County as the Fiscal Agent for the Bonds.

The Paying Agent is hereby authorized to and shall mail interest payments to the Bondowners, select Bonds for redemption, give notice of redemption and meetings of Bondowners and maintain the Bond Register. The Paying Agent is hereby authorized to and shall pay the principal of and premium, if any, on the Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds presented to it for such purposes, to provide for the cancellation of Bonds all as provided in this Indenture, and to provide for the authentication of Bonds, and shall perform all other duties assigned to or imposed on it as provided in this Indenture. The Paying Agent shall keep accurate records of all Bonds paid and discharged by it.

The Fiscal Agent is hereby authorized to and shall maintain and administer funds and accounts established pursuant to Section 4.01 hereof. The Fiscal Agent shall keep accurate records of all funds administered by it.

The Paying Agent and Fiscal Agent initially appointed and any successor thereto may each be removed by the District and a successor or successors may be appointed. So long as any Bonds are Outstanding and unpaid, the Paying Agent, the Fiscal Agent and any successor or successors thereto designated by the District shall continue to be Paying Agent and Fiscal Agent, respectively, of the District for all of said purposes until the designation of a successor or successors.

Section 7.02. Liability of Paying Agent and Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Paying Agent and the Fiscal Agent assume no responsibility for the correctness of the same and make no representations as to the validity or sufficiency of this Indenture or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations set forth herein or in the Bonds or in the certificate of authentication and registration assigned to or imposed upon the Paying Agent or Fiscal Agent, as applicable. The Paying Agent shall be under no responsibility or duty with respect to the issuance of the Bonds for value. Neither the Paying Agent nor Fiscal Agent shall be liable in connection with the performance of their respective duties hereunder, except for their respective negligence or default.

ARTICLE VIII

DEFEASANCE

Section 8.01. Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds the interest due thereon and the principal thereof, at the times and in the manner stipulated therein and in this Indenture, then the Owners of such Bonds shall cease to be entitled to the pledge of Net Taxes, and all covenants, agreements and other obligations of the District to the Owners of such Bonds under this Indenture shall thereupon cease, terminate and become void and be discharged and satisfied, except the District's obligations to comply with the tax covenants contained herein. In such event, the Fiscal Agent and the Paying Agent, as appropriate, shall execute and deliver to the District such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent and the Paying Agent, as appropriate, shall pay over or deliver to the District all money or securities held by them pursuant to this Indenture which are not required for the payment of the interest due on and the principal of such Bonds.

Bonds for the payment of which money shall have been set aside (through deposit by the District or otherwise) to be held in trust by the Paying Agent for such payment at the maturity date thereof shall be deemed, as of the date of such setting aside, to have been paid within the meaning and with the effect expressed in the first paragraph of this section.

Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this section if (1) there shall have been deposited with the Paying Agent either money in an amount which shall be sufficient, or Federal Securities the principal of and the interest on which when paid will provide money which, together with the money, if any, deposited with the Paying Agent at the same time, shall be sufficient to pay when due the interest due and to become due on such Bonds on and prior to the maturity date thereof, and the principal of such Bonds and (2) the District shall have given the Paying Agent in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Paying Agent and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date upon which money is to be available for the payment of the principal of such Bonds. The sufficiency of any such deposit, other than money alone, must be verified by the report of an independent certified public accountant.

Neither Federal Securities nor money deposited with the Paying Agent pursuant to this section nor interest or principal payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the interest on and principal of such Bonds; provided that any cash received from such interest or principal payments on such Federal Securities deposited with the Paying Agent, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on and principal of such Bonds on and prior to such maturity date thereof, and interest earned from such reinvestments shall be deposited in the Special Tax Fund. For the purposes of this section, Federal Securities shall mean and include only such securities as are not subject to redemption prior to their maturity.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.01. Supplemental Indentures without Bondowner Consent. The District, the Paying Agent and the Fiscal Agent, may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into such Supplemental Indentures as shall not be inconsistent with the terms and provisions hereof (which Supplemental Indentures or agreements shall thereafter form a part hereof) for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in this Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(c) to authorize the issuance of additional Bonds, subject to the terms hereof; and

(d) to modify, alter, amend or supplement this Indenture for any reason in any other respect which is not materially adverse to the interests of Bondowners.

Section 9.02. Supplemental Indenture with Bondowner Consent. Exclusive of the Supplemental Indentures covered by Section 9.01, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the execution of such Supplemental Indentures as shall be deemed necessary or desirable for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any Supplemental Indenture or agreement; provided, however, that nothing herein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, (b) a reduction in the principal amount of, or redemption price of, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing herein contained, however, shall be construed as making necessary the approval by Bondowners of the execution of any Supplemental Indentures or agreements.

Section 9.03. Notice of Supplemental Indenture to Bondowners. If at any time the District shall desire to enter into a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture (or a summary thereof) to be mailed, by first class mail postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy

thereof is on file at the office of the Authorized Representative of the District for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding as required by this Section. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the Supplemental Indenture substantially in the form of the copy referred to in such notice as on file with the Authorized Representative of the District, such proposed Supplemental Indenture, when duly entered into by the District and the Fiscal Agent, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are known to the Fiscal Agent to be owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the execution and delivery by the District and the Fiscal Agent of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than 60% in aggregate principal amount of Bonds Outstanding in instances where such consent is required pursuant to the provisions of this Section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Fiscal Agent and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

ARTICLE X

EVENTS OF DEFAULT; REMEDIES

Section 10.01. Events of Default. Any one or more of the following events shall constitute an “event of default”:

- (a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) Default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or
- (c) Default by the District in the observance of any of the agreements, conditions or covenants on its part in this Indenture or in the Bonds contained (other than a payment default referred to in subparagraph (a) and (b) above), and the continuation of such default for a period of 60 days after the District shall have been given notice in writing of such default by the Fiscal Agent, provided that if within 60 days the District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated.

Section 10.02. Remedies of Owners. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

- (a) By mandamus or other suit or proceeding at law or in equity to enforce his or her rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;
- (b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- (c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in this article or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in this Indenture.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an

acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Section 10.03. Actions by Fiscal Agent as Attorney-In-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Fiscal Agent for the equal benefit and protection of all Owners, and the Fiscal Agent is hereby appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the Owners as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney-in-fact.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Cancellation of Bonds. All Bonds surrendered to the Paying Agent for payment upon maturity or redemption shall, upon payment therefor, be cancelled immediately and forthwith transmitted to or upon the order of the District. Any Bond purchased by the District as authorized herein shall be delivered to the Paying Agent and cancelled forthwith and shall not be reissued. All of the cancelled Bonds shall be transferred to and shall remain in the custody of the District until destroyed by the Paying Agent pursuant to due authorization.

Section 11.02. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners, may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his or her authority.

(b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums so paid. The Paying Agent shall not be affected by any notice to the contrary.

Nothing in this Indenture shall be construed as limiting the Paying Agent to such proof, it being intended that the Paying Agent may accept any other evidence of the matters herein stated which the Paying Agent may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Paying Agent in pursuance of such request or consent.

Section 11.03. Provisions Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, this Indenture shall be deemed to be and shall constitute a contract between the District and the Owners from time to time of the Bonds; and the pledge made in this Indenture and the covenants and agreements herein set forth to be performed on behalf of the District shall be for the equal benefit, protection

and security of the owners of any and all of the Bonds, all of which, regardless of the time or times of their issuance, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by this Indenture.

No remedy conferred hereby upon any Bondowner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law of the State. No waiver of any default or breach of duty or contract by any Bondowner shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondowner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondowners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and the Bondowner shall prevail, said Bondowner shall be entitled to receive from the Special Tax Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners then, and in every such case, the District and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds this Indenture shall be irrevocable, but shall be subject to modification to the extent and in the manner provided in this Indenture, but to no greater extent and in no other manner.

Section 11.04. Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture and the Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under this Indenture and the Constitution and laws of the State.

Section 11.05. Notice. Any notice, demand, direction, request or other instrument authorized or required by this Indenture to be given to or filed with the District, the Paying Agent or the Fiscal Agent shall be deemed to have been sufficiently given or filed for all purposes of this Indenture if and when delivered to or sent by certified mail, return receipt requested to:

District –	Community Facilities District No. 3 (Valencia/Newhall Area)
	of the County of Los Angeles
	Hall of Administration
	500 West Temple Street, Room 432
	Los Angeles, California 90012
	Attention: Treasurer and Tax Collector

Fiscal Agent – County of Los Angeles
500 West Temple Street
Los Angeles, California 90012
Attention: Auditor-Controller

Paying Agent – County of Los Angeles
500 West Temple Street, Room 432
Los Angeles, California 90012
Attention: Treasurer and Tax Collector

All documents received by the Fiscal Agent or the Paying Agent under the provisions of this Indenture shall be retained in its possession, subject at all times to the reasonable inspection of the District, any Bondowner, and the agents and representatives thereof.

Section 11.06. Personal Liability. The District or any officer, agent or employee thereof, shall not be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such entity, officer, agent or employee from the performance of any official duty provided by law.

Section 11.07. Validity of Multiple Copies. This Indenture may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original; and such counterparts shall constitute but one and the same instrument.

Section 11.08. Headings. Any headings preceding the texts of the several Articles hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

Section 11.09. Governing Law. All provisions of this Indenture are to be governed by the laws of the State.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Bond Indenture effective as of the date first above written.

**COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA) OF THE
COUNTY OF LOS ANGELES ACTING
THROUGH THE BOARD OF SUPERVISORS OF
THE COUNTY OF LOS ANGELES, AS THE
LEGISLATIVE BODY**

By: _____
Chair

ATTEST:

VIOLET VARONA-LUKENS,
EXECUTIVE OFFICER-CLERK
OF THE BOARD OF SUPERVISORS

By _____
Deputy

**TREASURER AND TAX COLLECTOR OF THE
COUNTY OF LOS ANGELES, AS THE PAYING
AGENT**

By _____
Mark J. Saladino

**AUDITOR-CONTROLLER OF THE COUNTY
OF LOS ANGELES, AS THE FISCAL AGENT**

By _____
J. Tyler McCauley

[EXECUTION PAGE OF THE INDENTURE]

EXHIBIT A
FORM OF BOND

No. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES

IMPROVEMENT AREA C
SPECIAL TAX BONDS, SERIES 2003A

INTEREST
RATE

%

MATURITY
DATE

September 1, 20__

DATED
DATE

_____, 2003

CUSIP NO.

REGISTERED OWNER:

PRINCIPAL AMOUNT:

Dollars

COMMUNITY FACILITIES DISTRICT NO. 3 (VALENCIA/NEWHALL AREA) OF THE COUNTY OF LOS ANGELES (the "District") situated in the County of Los Angeles (the "County"), State of California (the "State"), FOR VALUE RECEIVED, hereby promises to pay, solely from Special Taxes (as hereafter defined) to be collected in Improvement Area C in the District and certain other moneys to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above and to pay interest on such principal amount from _____, 1, 2003 semiannually on each March 1 and September 1, commencing September 1, 2003 (each an "Interest Payment Date") at the interest rate set forth above, until the principal amount hereof is paid or made available for payment. The principal of and premium, if any, on this Bond are payable to the registered owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at maturity or redemption at the principal office of the Treasurer and Tax Collector of the County of Los Angeles, as paying agent (or any successors thereto), in Los Angeles, California (the "Paying Agent"). Interest on this Bond shall be payable by check or draft of the Paying Agent mailed by first class postage prepaid mail to the registered owner hereof as of the close of business on the 15th calendar day of the month preceding the Interest Payment Date (the "Record Date") at such registered owner's address as it appears on the registration books maintained by the Paying Agent (the "Bond Register").

This Bond is one of a duly authorized issue of "Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds, Series 2003A" (the "Bonds") issued in the aggregate principal amount of \$_____ pursuant to the Mello-Roos Community Facilities Act of 1982, constituting Sections 53311 *et seq.* of the California Government Code, as amended (the "Act"), for the purpose of financing certain improvements in and/or for a portion of the District known as Improvement Area C (the "Project"). The issuance of the Bonds and the terms and conditions thereof are provided for by an Indenture (the "Indenture") dated as of April 1, 2003, executed by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles acting through the Board of Supervisors of the County, as the legislative body, by the Treasurer and Tax Collector of the County, and by the Auditor-Controller of the County and by this reference incorporates the Indenture herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Indenture is authorized under, this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from, and shall be secured by a pledge of and lien upon (less certain administrative expense), (i) the annual special taxes authorized under the Act to be levied on property lying within Improvement Area C of the District (the "Special Taxes"), (ii) proceeds from the sale of property collected pursuant to the foreclosure provisions of the Act and the Indenture for the delinquency of such Special Taxes and (iii) certain other moneys as described in the Indenture.

Interest on this Bond shall be payable from the Interest Payment Date next preceding the date of authentication of this Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the dated date set forth above; provided, however, that if at the time of authentication of this Bond, interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or from the dated date of the Bonds if no interest has been paid or made available for payment. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the owner of such Bond as of the close of business on the Record Date at the address which appears on the Bond Register. Interest with respect to this Bond shall be computed using a year of 360 days comprised of twelve 30-day months.

Any tax for the payment hereof shall be limited to the Special Taxes, except to the extent that provision for payment has been made by the legislative body of the District, as may be permitted by law. The Bonds do not constitute obligations of the County or the District for which the County or the District is obligated to levy or pledge, or has levied or pledged, general or special taxation other than as described hereinabove. The District has covenanted for the benefit of the owners of the Bonds that, if the Fiscal Agent determines at any time that the balance in the Reserve Fund, created under the Indenture is less than the Reserve Requirement, as defined in the Indenture, as the result of the failure by one or more owners of real property to pay Special Taxes when due, it will commence or cause to be commenced appropriate foreclosure proceedings and diligently pursue or cause to be diligently pursued to completion such foreclosure proceedings as may be necessary to restore the Reserve Fund balance to the Reserve Requirement.

The Bonds maturing on or after September 1, 20__, may be redeemed prior to maturity, in whole or in part on any Interest Payment Date pro rata among maturities and by lot within a maturity from

amounts on deposit in the Redemption Fund, at the option of the District on or after September 1, 20__, at the following redemption prices, expressed as a percentage of par value of the Bonds to be redeemed, together with accrued interest to the date of redemption:

Redemption Dates	Redemption Price
September 1, 20__ or March 1, 20__	%
September 1, 20__ or March 1, 20__	
September 1, 20__ and thereafter	

The Bonds maturing on September 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__, and on each September 1 thereafter to and including September 1, 20__, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

Redemption Dates (September 1)	Principal Amount
20__	\$
20__	
20__	
20__	
20__	
20__	
20__ (maturity)	

The Bonds maturing September 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on September 1, 20__ and on each September 1 thereafter to and including September 1, 20__, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the respective dates set forth below:

Redemption Dates (September 1)	Principal Amount
20__	\$
20__	
20__	
20__	
20__	
20__	
20__ (maturity)	

Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owner thereof at least 30 but not more than 45 days prior to the redemption date, by first class mail, postage prepaid, at their addresses appearing on the Bond Register as of the close of business on the day before such redemption notice is given.

This Bond shall be issued only in fully registered form in the denomination of \$5,000 or any integral multiple thereof.

Each registration and transfer of registration of this Bond shall be entered by the Paying Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication and registration endorsed hereon.

No transfer hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owner's order. The Paying Agent may require the Bond owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Paying Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF the Board of Supervisors of the County of Los Angeles, as the legislative body of Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles, has caused this Bond to be dated as of the ___ day of _____, 2003, to be signed by the Chair of the Board of Supervisors of the County of Los Angeles by her facsimile signature and attested by the Executive Officer-Clerk of the Board of Supervisors of the County of Los Angeles by her facsimile signature.

Chair of the Board of Supervisors of the County of
Los Angeles for Community Facilities District No. 3
(Valencia/Newhall Area) of the County of Los
Angeles

ATTEST:

Executive Officer-Clerk of the Board of
Supervisors of the County of Los Angeles for
Community Facilities District No. 3
(Valencia/Newhall Area) of the County of
Los Angeles

**CERTIFICATE
OF AUTHENTICATION AND REGISTRATION**

This is one of the bonds described in the within defined Indenture which has been registered this _____.

_____,
_____, as Paying Agent

By _____
Authorized Signatory

ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto _____ the within-mentioned registered bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Paying Agent with full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this Assignment must correspond with the name as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature guaranteed: _____

Taxpayer I.D. No.: _____

EXHIBIT B

**COMMUNITY FACILITY DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES**

PAYMENT REQUEST FORM

Chief Accounting Division
Auditor-Controller
500 West Temple Street, Room 603
Los Angeles, CA 90012

Dear _____:

PAYMENT REQUEST NO. ____
() PROGRESS PAYMENT () FULL/FINAL PAYMENT

The Fiscal Agent is hereby requested to pay from the ____ Account of the Acquisition Fund established pursuant to the Indenture dated as of April 1, 2003 (the "Indenture"), executed by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles, by the Treasurer and Tax Collector of the County of Los Angeles, as Paying Agent, and by you, as Fiscal Agent, to the person, corporation or other entity designated below as Payee, the sum set forth below such designation, in payment of the [Costs of Issuance] [Project Costs] described below. The amount shown below is due and payable under a purchase order, contract or other authorization with respect to the [Costs of Issuance] [Project Costs] described below and has not formed the basis of any prior request for payment. Payment of the amount shown below is permitted by the Act and by the Funding and Acquisition Agreement, as defined in the Indenture.

Payee:
Address:

Amount: \$

Description:

The [Project Costs] [Costs of Issuance] described above are accepted by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles and authorized to be paid to the Payee.

Executed by the Authorized Representative of
Community Facilities District No. 3 (Valencia/
Newhall Area) of the County of Los Angeles

Signature: _____

Name: _____

Title: _____

EXHIBIT C

**COMMUNITY FACILITY DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES**

ADMINISTRATIVE EXPENSE PAYMENT REQUEST FORM

Chief Accounting Division
Auditor-Controller
500 West Temple Street, Room 603
Los Angeles, CA 90012

Dear _____:

PAYMENT REQUEST NO. __

☐ PROGRESS PAYMENT

☐ FULL/FINAL PAYMENT

The Fiscal Agent is hereby requested to pay from the Administrative Expense Fund established pursuant to the Indenture dated April 1, 2003 by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles, by the Treasurer and Tax Collector of the County of Los Angeles, as the Paying Agent, and by you, as Fiscal Agent, to the person, corporation or other entity designated below as Payee, the sum set forth below such designation, in payment of the Administrative Expense described below. The amount shown below is due and payable under a purchase order, contract or other authorization with respect to the Administrative Expense described below and has not formed the basis of any prior request for payment.

Payee:

Address:

Amount: \$

Description:

The Administrative Expense described above is accepted by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles and authorized to be paid to the Payee.

Executed by the Authorized Representative of
Community Facilities District No. 3 (Valencia/
Newhall Area) of the County of Los Angeles

Signature: _____

Name: _____

Title: _____

\$9,000,000
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C SPECIAL TAX BONDS
SERIES 2003A

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") dated as of April 1, 2003 is executed and delivered by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (respectively, the "District" and the "County") in connection with the issuance of \$9,000,000 Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds Series 2003A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of April 1, 2003 (the "Indenture") by and among the District acting through the Board of Supervisors of the County, the Treasurer and Tax Collector of the County, as Paying Agent (the "Paying Agent"), and the Auditor-Controller of the County, as Fiscal Agent (the "Fiscal Agent"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the District for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. The covenants contained in this Disclosure Undertaking are intended to provide for the disclosure of information to be provided by the District as issuer under the Rule. This Disclosure Undertaking does not address additional undertakings, if any, by or with respect to persons other than the District who may be considered "obligated persons" for purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriter to comply with the Rule. The District acknowledges that the County has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Undertaking, and has no liability to any person, including any Owners of the Bonds, with respect to any such reports, notices or disclosures.

Section 2. Definitions. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Beneficial Owner" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Treasurer and Tax Collector of the County or his or her designee acting on behalf of the District, or such other officer or employee as the District shall designate in writing to the Fiscal Agent from time to time.

“Dissemination Agent” shall mean the Treasurer or any designee specified in writing by the District and which has filed a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Undertaking.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities Exchange Commission are set forth in Exhibit B.

“Official Statement” shall mean the Official Statement of the District dated April __, 2003 relating to the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designed by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Undertaking, there is no State Repository.

“Treasurer” shall mean the Treasurer and Tax Collector of the County of Los Angeles.

Section 3. Provision of Annual Reports.

(a) The District shall or shall cause the Dissemination Agent to not later than February 1 after the end of the District's fiscal year (presently June 30), commencing with the report for the 2002-2003 Fiscal Year (February 1, 2004), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Undertaking. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Fiscal Agent shall provide the Annual Report to the District and the Dissemination Agent. If by such date, the District has not received a copy of the

Annual Report, the District shall contact the Fiscal Agent and the Dissemination Agent to determine if the District will be able to comply with the first sentence of subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send notice to each Repository in substantially the form attached hereto as Exhibit A-1.

(d) The District shall, or shall cause the Dissemination Agent to:

(i) determine each year prior to the date for providing the Annual Reports the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the District and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report has been provided pursuant to this Disclosure Undertaking, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Report.

(a) The District's Annual Report, in substantially the form attached hereto as Exhibit A-2, shall contain or include by reference an update of the following financial information on the District for year ending June 30 (unless otherwise stated):

- Principal amount of Bonds outstanding and principal amount of Bonds authorized for the Improvement Area
- Balance in Reserve Fund and a statement of the Reserve Requirement
- Balance in all other funds and accounts of the District related to the Bonds
- Total assessed value of all parcels subject to the Improvement Area C Special Tax
- Delinquency information on all parcels within Improvement Area C including the Special Tax levied, the number of parcels subject to the levy and the delinquency rate
- Status of special tax foreclosure proceedings and summary of results of foreclosure sales, if available
- Identity of any delinquent taxpayer (by specific title holder and excluding related entities) representing in the aggregate more than 5% of the Improvement Area C special tax levy
- A land ownership summary listing ownerships from records of County Assessor responsible for more than 5% of the Improvement Area C Special Tax levy for the current fiscal year, percentage of levy and whether land is categorized as "Developed Property" or as "Undeveloped Property" pursuant to the Rate and Method of Apportionment of Special Tax of the District for the Improvement Area

(b) Any or all of the items listed in subsection (a) above may be included by specific reference to other documents, including official statements of debt issues of the District, the County or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice, in substantially the form attached hereto as Exhibit A-3, of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondowners;
- (8) Unscheduled Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Bonds;
- (11) Rating changes;
- (12) Amendment or waiver of a provision of this Disclosure Undertaking;

(b) the Dissemination Agent shall, within fifteen (15) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Fiscal Agent and the District, inform such persons of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the

District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice, in substantially the form of Exhibit A-3, of such occurrence with the Municipal Securities Rulemaking Board and the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The District may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Undertaking. The District has appointed the Treasurer as the initial Dissemination Agent for the Bonds.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the District may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, *provided* that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of the Fiscal Agent or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Undertaking, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District.

Section 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the District shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Undertaking, the Fiscal Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, the Fiscal Agent shall) or any Owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Undertaking in the event of any failure of the District to comply with this Disclosure Undertaking shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article VII of the Indenture is hereby made applicable to this Disclosure Undertaking as if this Disclosure Undertaking were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Fiscal Agent) shall have only such duties as are specifically set forth in this Disclosure Undertaking and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Undertaking may be given as follows:

To the District: County of Los Angeles
Office of Treasurer and Tax Collector
Room 432 Hall of Administration
500 West Temple Street
Los Angeles, California 90012
Attention: Public Finance
Telephone: (213) 974-7175
Fax: (213) 625-2249

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

Section 13. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA) OF THE COUNTY
OF LOS ANGELES

By: _____
Treasurer and Tax Collector of the
County of Los Angeles

[EXECUTION PAGE OF CONTINUING DISCLOSURE UNDERTAKING]

EXHIBIT A-1

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of the District: Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles

Name of Bond Issue: Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds Series 2003A

Date of Issuance: April __, 2003

NOTICE IS HEREBY GIVEN that Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Indenture dated as of April 1, 2003 by and among the District, the Treasurer and Tax Collector of the County of Los Angeles as Paying Agent and the Auditor-Controller of the County of Los Angeles, as the Fiscal Agent. The District anticipates that such Annual Report will be filed not later than January 31 each year commencing January 31, 2004.

Dated: _____

[DISSEMINATION AGENT]

By: _____

cc: Community Facilities District No. 3 (Valencia/Newhall Area)

EXHIBIT A-2

**ANNUAL REPORT OF COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
RELATING TO
\$9,000,000
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C SPECIAL TAX BONDS
SERIES 2003A**

The following information is being provided by Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District") pursuant to (i) Section 6.11 of the Indenture, dated as of April 1, 2003, by and among the District, the Treasurer and Tax Collector of the County of Los Angeles as Paying Agent and the Auditor-Controller of the County of Los Angeles, as Fiscal Agent and (ii) Section 4 of the Continuing Disclosure Undertaking, dated April 1, 2003 (the "Disclosure Undertaking"), of the District relating to the Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles Improvement Area C Special Tax Bonds Series 2003A (the "Bonds").

**[UPDATE INFORMATION AS REFERENCED IN SECTION 4 OF CONTINUING
DISCLOSURE UNDERTAKING]**

ANY SUBSEQUENT STATEMENTS REGARDING THE BONDS OTHER THAN A STATEMENT MADE BY THE FISCAL AGENT IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB) AND THE NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES (NRMSIR), ARE NOT AUTHORIZED BY THE DISTRICT OR THE FISCAL AGENT. NEITHER THE DISTRICT NOR THE FISCAL AGENT SHALL BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENT.

THIS REPORT IS BEING FILED PURSUANT TO THE CONTINUING DISCLOSURE UNDERTAKING AND DOES NOT PURPORT TO CONTAIN ALL MATERIAL INFORMATION WITH RESPECT TO THE BONDS OR THE FINANCIAL CONDITION OF THE DISTRICT.

NEITHER THE DISTRICT NOR THE FISCAL AGENT HAS ANY OBLIGATION TO
UPDATE THIS REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE CONTINUING
DISCLOSURE UNDERTAKING.

DATED: _____, _____

COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA) OF THE COUNTY
OF LOS ANGELES

By: _____
Auditor-Controller of the County of Los
Angeles, Fiscal Agent

EXHIBIT A-3
NOTICE OF SIGNIFICANT EVENT
RELATING TO
\$9,000,000
COMMUNITY FACILITIES DISTRICT NO. 3
(VALENCIA/NEWHALL AREA)
OF THE COUNTY OF LOS ANGELES
IMPROVEMENT AREA C SPECIAL TAX BONDS
SERIES 2003A

NOTICE IS HEREBY GIVEN pursuant to that certain Continuing Disclosure Undertaking, dated as of April 1, 2003 (the "Continuing Disclosure Undertaking"), of Community Facilities District No. 3 (Valencia/Newhall Area) of the County of Los Angeles (the "District"), that the following significant event with respect to the above-captioned bonds (the "Bonds") has occurred:

[Describe significant event here]

ANY SUBSEQUENT STATEMENTS REGARDING THIS EVENT OR THE BONDS OTHER THAN STATEMENTS MADE BY THE FISCAL AGENT IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB) AND THE NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES (NRMSIR) ARE NOT AUTHORIZED BY THE DISTRICT. NEITHER THE DISTRICT NOR THE FISCAL AGENT SHALL BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENT.

THIS NOTICE IS BEING GIVEN PURSUANT TO THE CONTINUING DISCLOSURE UNDERTAKING AND DOES NOT PURPORT TO CONTAIN ALL MATERIAL INFORMATION WITH RESPECT TO THE BONDS OR THE FINANCIAL CONDITION OF THE DISTRICT.

NEITHER THE DISTRICT NOR THE FISCAL AGENT HAS ANY OBLIGATION TO UPDATE THIS NOTICE OTHER THAN AS EXPRESSLY PROVIDED IN THE CONTINUING DISCLOSURE UNDERTAKING.

Dated: _____

[DISSEMINATION AGENT]

By: _____

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) approved by the Securities and Exchange Commission as of February 19, 2003:

Bloomberg Municipal Repositories

100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data

Attn: NRMSIR
100 Williams Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com